Banrisul's 1Q23 Results Presentation

Conference Call – May 12, 2023

Operator:

Good morning, ladies and gentlemen. Welcome to Banrisul's videoconference to discuss results relative to the 1Q23.

This videoconference is being recorded, and the replay may be accessed in the Company's website at ri.banrisul.com.br/en. The presentation will also be available for download at this platform chat.

Initially, we will have a presentation with the highlights and financial information for the quarter, and after that, we will have a Q&A session with interaction between analysts and investors with Banrisul's management.

In case you want to submit questions, use the 'Q&A' button. And in case you want to ask a question in audio, please select the button 'react' and click 'raise your hand.' If your question has been answered, you can leave the queue by clicking on 'drop hand.'

We have here Mr. Cláudio Coutinho Mendes, CEO of the Company; Mr. Irany Sant'Anna ', Deputy CEO and Risk Officer; Mr. Marcus Staffen, CFO and IRO; and Mr. Osvaldo Lobo. Credit Officer. I would like to turn the floor over to Mr. Coutinho, CEO of Banrisul, who will start the presentation.

Please, Mr. Coutinho, you may carry on.

Cláudio Coutinho Mendes:

Thank you very much. Good morning, everyone. I would like to thank your participation at this presentation of our results for the 1Q23 of Banrisul.

First of all, let's talk about our highlights. Let me tell you that Banrisul has an expense agenda regarding environment, social, governance, ESG. And let me talk about a change in our statutes to contemplate diversity in the Board of the Company.

So the top management, we plan to have at least 30% of senior management roles for women, black or brown people, LGBTQIA+ people or people with disabilities. This is one to do starting now, so we will reach 30% at least by the year 2030.

Regarding our impact businesses, we thought about innovation public and socio-environmental programs to notice with a line of R$50 million for companies that bring projects supported by Banrisul. Consequently, they will have credit for that. Besides that, we made a change which will be enforced to the end of the year, we will open Banricompras. It will be accepted at vending machines across the country. It will be a nation-wide card, not only at VERO machines, but it can be used in other machines or vending machines. By the end of this year, this will be available.

On the other hand, let me talk about the renewal of staff. So by looking here since March 2020 to March 2023, we had 1,400 collaborators, employees who left us, and we are now renewing our staff. In the 1Q, we had more than 218 IT professionals in training, and we will be replenishing this gap after they are tested. And those who opted for the dismissal agreement, will leave the Company this year.

Now let me talk about the loan portfolio that we have. It continues to grow at robust changes in 12 months. Quarter-on-quarter, it grew 18.2%. And let me also remind you that this portfolio is collateralized and it has robust guarantees. 80% of our portfolio has collaterals for individuals. It is like payroll loans. So our portfolio is very safe in terms of credit risk.

Now looking at the growth vectors, let me talk about the rural credit. Rural loans portfolio with 69%, reaching R$8.4 billion. This is a portfolio that is growing in an accelerated and healthy fashion that you can see here in terms of risk and default. We want to talk about the increase of working capital and that accounts, now they have a small base. Total of the portfolio in this area is not so big, but these are very robust growth, 21% in working capital and debt accounts in 18%.

In rural and real estate, we have growth year-on-year. In rural, we grew 69%. In real estate, we grew 14.7%. And this is according to the several products that the Bank offers. In terms of rural loans, we have R$8.4 billion in March 2023 with a 69% growth. And in the crop plan, we had R$7 billion in credit, 88% have been already granted, and the quality of credit is exceptional. In the 90 days period, we reached 0.5% of our portfolio for 2023.

This is an excellent portfolio, and this portfolio predominantly has to do with costs financing, which are renewed every year.

In terms of our asset quality, this slide clearly shows the excellent quality of our portfolio and how important it is to maintain the principles in terms of diversification and collateralization and the discipline of our Bank in terms of continuing to operate in a diversified way with its clients. We can see that our 90 days default ratio is very low, 1.7%. And we also have a portfolio with AA and C ratings. I mean, 93% of this portfolio are within this interval of ratings, which is very good.

And in terms of portfolio concentration, I would say that the 50 largest debtors only account for 6.5%. This shows how diversified and guaranteed low-risk portfolio it is, also with a low default rate.

In terms of loan loss provisions, we continue to be conservative in terms of provisions. If you exclude the recovered credit low risk and the portfolio growth in low-risk lines with solid guarantees mitigate potential risks of credit deterioration.

And also, we can see the numbers and percentage here. We continue with credit costing 2% and provisioning 5%. Once again, this is a new look showing our portfolio has solid guarantees, and this gives us safety, so we can expand the credit portfolio, given that we are safe in terms of risk.

Now let me talk about our highlights in this quarter. Our net income in the 1Q23 reached the R$213 million in 12 months. It grew around 30%. And regarding the previous quarter, we had a drop of 15%. It's important to notice here that we cannot disconsider the season. We have to consider the 30% of growth because the last quarter of the year is very significant. The economy is heated, the companies are producing to sell over Christmas. The use of our equipment and means of payment like VERO increased. So it's in test during the end of the year.

And from January, February and March, there is this vacation period. Most people are on vacation, during the month of January, February. The day is longer here if compared to the rest of the country and the temperature is high. People love going to the beach and they travel. So the economic activity decreases as a whole, and we try to make some activities to move to the beach areas, to have a presence in these beach areas to counter that. But anyway, the level of business decreases. I am making this statement because we must consider the seasonality, which is very important and has a special impact during the South of Brazil.

So this make us consider that the prognosis for the rest of the year is good. Our loan portfolio reached R$50 billion with a 18% growth in 12 months. In the payroll loans area, it did not grow so much compared to the end of last year. We had seasonality and also the INSS, which changed its rate and led to a paralysis in the system. Banrisul did not stop working even with a 1.7% rate in its business, but there was a certain turbulence in the market, and we did not produce so much over this period in which the rate is 1.7%.

Anyway, we expect a growth around 6.5% in 12 months. The rural loans grew 69% with a R$8.5 billion portfolio. And in 2019, this this portfolio was R$2 billion. So we multiply this number by 4. As we have said in other calls, our portfolio has been recovering, and in credit net interest income, our prognosis is that it continues hovering all the year, and we maintain in real levels, our fees and service revenues in a field that has a lot of competition with institutions like digital banks that do not charge fees.

And even so, we managed to keep this levels. In terms of fees, we did grow of almost 6% in 12 months, very bigger. In terms of default ratio, a very low percentage, 1.73%. This encourages us to keep on with this attitude of being conservative granting credit with guarantees and diversified credit. And the cost of risk is around 2%.

In terms of profitability of our Bank, in 12 months, as mentioned before, net income grew 29.8% with the result of R$213 million in the 1Q. Adjusted ROAE is 9%. We need to consider seasonality, so we expect to have good results for the year. The main growth is the financial margin, which accounts for the growth in our profit, and we hope this financial margin recovers more and more. And as we have a drop of Selic rate, we do not know when, but when the Selic rate drops, this will certainly benefit our financial margins, our income.

Here we are looking at net interest income, specifically. It grew 11% in 12 months, and it's for companies and also rural credits. And also in treasury, the interest rate that is higher, and it makes you have a figure that is important and relevant.

In terms of funding. It shows one of the main points of pain of Banrisul. This is extremely diversified, with a very low cost. The average cost of funding is only funding cost for CDBs. Our average cost is 85.8%. This is very important. We have a funding that is very cheap. And at the same time, it is diversified. You can see here in terms of the concentration, you can see the bar showing that the sum of the 100 large companies account for 6.3%. So we have a large number of individuals, 65.3%.

This is one of the main points for Banrisul. Looking in a more general way, I would say that Banrisul has a funding structure that is cheap, diversified and with a lot of individuals and small and medium companies investing and you have a portfolio that is diversified and guaranteed. This is our structure, and this is our basis to have a pulverized, diversified and cheap funding and low risk.

This is a slide showing our expenses and banking fees. From the adjusted administrative expenses, we grew 12%. We had the collective wage agreement of 8% in wage and 10% in benefits. The difference of this 12% has to do with the IT professionals admittance and who entered the Company in the 1Q. Until this 1Q, there was no professionals left the Company due to the dismissal agreement.

So probably in the near future, we will have a result based on these professionals who make a lot of money in terms of wage. They are in the superior layer of the payment pyramid. And then those who are joining the Company now, they have a lower income if compared to people who have a larger experience. And the IT professionals have a slightly higher wage as they enter the Company.

So in this quarter, we have this 12% figure, which is a little higher than our collective wage agreement. But throughout the year, this figure is expected to change with as our professionals decide to leave the Company. And another item that is with 11% is the promoter of sales that generates payroll loans. And this number, the higher it is, the better because it's a variable cost, it's not a fixed cost.

And we had some expenses with IT in terms of cards and consulting, and it reached 7.2%, which is close to the inflation for the past 12 months.

Now we have the revenue from business services. We maintained this around inflation, in spite of all the competition that there is today with digital banks and fintechs that generally do not charge any fees.

Finally, this shows that we have a lot of room and safety in terms of infrastructure to keep on growing in terms of credit. We have our Basel ratio around 17%. Even if you consider the 12-month period, it's the same, 17%, almost the same coming from 17.61% going to 17.13%. This shows that we have a lot of safety and capital, so we can continue growing in our credit portfolio. This is our very well done capital provision and plan to move forward.

So I would like to thank you very much for your participation in this event once again and now let's move on to the Q&A, including the other members of the Board. Thank you very much.

Eric Ito, Bradesco:

Good morning. Thank you for this opportunity. I have some questions. First of all, I would like to understand a little how you expect the Bank to evolve. The financial margin, 11% is a little bit low because it's from 2019 to 2023. So how do expect this NIM structure, this NIM relationship throughout the year?

And looking at your ROE, in terms of guidance, we expected 11% to 15% in this quarter, and we ended up seeing our ROE of 9%. So I would like to understand that if you maybe will be more in the bottom range in the ROE guidance, and how do you expect the Bank to evolve throughout the year?

Marcus Vinicius Staffen:

Thank you, Eric, for your question. This is a fundamental topic. The first part of your question, I believe it explains the evolution of the second part of your question.

As expected, the recovery of the margin will happen throughout the year. Maybe we could discuss the credit margin because it expands to 3.8% if compared to the previous quarter, given that the final quarter is stronger, is more intense, and considering the whole seasonality of the 1Q.

And as Coutinho mentioned before, we need to consider the INSS market issue that caused some trouble during the previous period. This could put pressure on the credit financial margin.

There are some considerations we can make. Let me give you an example. If you triple this growth throughout the year and if you keep the treasury margin and the credit recovery margin stable, and let me tell you that the constant maintenance of these two were perhaps one of the lowest levels of recent quarters. Only considering that, we would have an expansion of 15% in the financial margin year-on-year.

You need to consider that 19% to 23% would then be so out of reach. And then we had some premium in the financial letters of the treasury, nothing dramatic, but it compresses the margin.

And in the treasury portfolio, which, in our case, is 100% in public deeds and public bonds are close to that. When we think about the future, I believe that repricing process will go on moving to 58% of the portfolio in this quarter. There is a space, a good space for that. Another important thing to share with you that the payroll loan average weigh above 12% in terms of annual terms throughout 2022. In the 1Q, the inventory rate evolved 5 bps. If you annualize that, we would have a robust growth regarding the previous year.

And now connecting to the second part of your question, the main driver result is the recovery of the margin. So if we achieve the financial margin guidance, naturally, we will get to this margin set by the guidance.

I tried to explain this and answered your question. I do not know if you have anything to add.

Eric Ito:

Thank you very.

Flavio Yoshida, Bank of America:

My question has to do with credit for growth. I would like to understand a little more from you, how is the dynamic of growth divided between product lines? Because we have default that is still low, but growth has been found in more conservative lines. In terms of risks. I would like to understand if this dynamic will go on or if you expect to see the portfolio growing in more risky lines throughout the year. Thank you.