

Conference Call Transcript
3Q20 Results
Bradesco
October 29, 2020

Announcer:

Good morning ladies and gentlemen, and thank you for waiting. Be welcome to the conference call about Bradesco's results in the third quarter of 2020. This conference call is being transmitted through internet, in Bradesco's investors relations website, in web address banco.bradesco/ri, where the respective presentation can be found to download. We inform that there is simultaneous translation to english. All participants will be only listening to the conference call, and then, we will begin the questions and answers session, when more instructions will be provided. If any of you need any assistance during the conference call, please, ask for an operator help by typing "*0". Before we proceed, we would like to clarify that any statements that may be made during this conference call, relating to the company's business prospects, projections and financial goals, constitute in beliefs and premises from the Board, as well as informations currently available to the Organization. Future considerations are not guarantees of performance: they involve risks, uncertainties and assumptions, as they refer to future events and, therefore, depend on circumstances that may or may not occur. Investors should understand that general economic conditions, industry conditions and other operating factors may affect the company's future performance and may lead to results that differ materially from those expressed in such forward-looking statements. Now, I will give the word to Mr. Leandro Miranda, Executive Director and Investor Relations Officer.

Leandro Miranda:

Good morning everyone and welcome to our conference call concerning third quarter 2020 results. Present with us today are Mr. Octavio de Lazari Júnior, our CEO; André Rodrigues Cano, Vice-President and CFO; Vinicius Albernaz, CEO of Bradesco Seguros; Moacir Nachbar, Executive Officer; and Carlos Firetti, Market Relations Officer. And now we hand the floor over to our President, Mr. Octavio de Lazari Junior.

Octavio de Lazari Junior:

Thank you, Leandro.

Good morning my friends. It's a pleasure to be here with you again. Time has flown quickly. I hope you all are well. We'll begin our conversation here.

Over the third quarter, we saw an evolution in the resumption of the economy and the return, with many restrictions of course, of some normal activities in a number of regions in Brazil.

Almost everyone here at Bradesco continues to work from home, which is around 95% of employees in departments and affiliates. The branches continue running at 50% in a rotation system. And as we've mentioned in the previous quarter, we are running very well and are highly productive, with the health of our personnel and clients a top priority in all decisions we make.

We've made great strides in the nearly 6 months since the beginning of the pandemic. We've quickly put new solutions in place that made the digital services we offer to our clients even more complete.

We've also been focused on ensuring that our clients have the financial solutions they need to get them through the crisis. There is almost no demand for extensions anymore (to give you an idea, in April at the peak, we had extended R\$32 billion in contracts, and now in September it was no more than R\$1 billion). We will show details about that later on. We also stepped up efforts to re-profile our clients' debts to make sure these debts are suited to their payment capacity and we are offering a large volume of new credit lines related to emergency programs.

We continue to see an economic recovery in the third quarter, with a slight resumption of employment suggesting an acceleration in GDP. We expect a 4.5% drop in 2020, but our outlook has improved drastically versus our first quarter estimates.

Despite an expected reduction in emergency aid, interest rates are likely to remain low and loan will support the economy. We also see exports and agriculture helping the performance of the economy.

We believe that the economy will reopen to full form in 2021 and this will help in its recovery.

A large amount of money was saved during the pandemic, which also helped in our funding. We believe that this limits the risk of default and partially offsets the end of emergency aid.

The emergency aid paid to families without income was a major part. But we also have to recognize that Brazil spent more than other emerging markets on this pandemic. This is why being careful with public accounts will be crucial to not disrupting the recovery in 2021.

Now, let's go straight to the results on page 3. We had a net income in the third quarter of R\$5.031 billion, an increase of 30% over the quarter in the annual comparison, but obviously still 23% below the same period in 2019.

The ROE for the quarter was 15.2%, a solid improvement over the second quarter, which was 11.9%, but still well below the pre-pandemic level. We believe that our ROE should continue to improve, assuming that there is no significant deterioration in the course of the pandemic and the economy continues down the path to recovery. Our loan portfolio grew 0.5% in the quarter with an impressive performance by SMEs and Individuals, and a reduction in large corporate. Tier I capital showed a solid growth of 40bps arriving at 12.9%, nearing the level seen in the fourth quarter of last year.

Turning to page 4, we'll show the evolution of some results and equity lines. We would like to point out the evolution of the margin, which obtained a 3.5% year on year growth despite a combination of factors such as a reduction of overdraft, in the use of credit cards, lines that were earmarked for small and medium-sized enterprises, lines with government funding that they have lower spreads but also have good coverage for defaults, suggesting that we will have virtually no ALL or very low ALL due to these lines, but they affect the margin significantly. Compared to the previous quarter, we saw a reduction of 8.0%, since the net interest income was quite strong in the second quarter due to the result with the above average market. We would also like to point out the ALL expenses, which decreased by R\$3.3 billion in the quarter. We will detail these lines in the upcoming slides.

Moving on to page 5, we show that our intake of deposits continued to progress rather well. We posted a 3.6% growth in the total funds obtained from clients in the quarter, and a 35% growth over the last 12 months. Today, our loan portfolio represents 81% of total funding, a very comfortable position. This solid performance in funding can be explained by clients' flight to quality into Bradesco deposits and investments at the beginning of the pandemic, as well as the migration of investments in DI funds to other kinds of applications.

On page 6, we present the expanded loan portfolio which grew 0.5% in the quarter and 11.7% in the last 12 months. Looking over the composition of growth, we can see a robust performance by small and microenterprises driven by the emergency assistance lines (which includes a percentage of guarantee that the government provides). Most of this growth in SME's was due to these emergency credit lines as well as the solid growth in individuals, where we grew in practically all lines except for personal loan. This was not unexpected because we tightened our credit models that were absolutely necessary at the beginning of the pandemic. Rotating credit, overdraft and credit cards have also been less used. To get a better idea, we closed the overdraft in December 2019 with the use of R\$4.2 billion and today that use is R\$3.2 billion, or R\$1 billion less. So clients are using these lines less. Both revolving and installment credit card lines have also been reduced. The lines of large corporate declined significantly in this quarter. Naturally, there was a lower demand for clients who prioritized the capital market, and a sizable portion of these clients, large corporate, took these lines in the first and second quarters, part of them already paying for the excess of working capital that they took at the beginning. Also, one of the reasons for us to seek an improvement of the margin is the continuing provision we have, that is, to improve our spreads on operations with large corporate.

Turning to page 7, we would like to point out that Bradesco has already provided R\$26 billion in emergency programs created by the government, BNDES and the Central Bank of Brazil. And the lines that concentrate the greatest volume are the FGI (Investment Guarantee Fund) and the lines that use the compulsory savings as funding.

On page 8, touching on the provision, we continued to enhance our provisioning on a much smaller basis this quarter, still obviously above pre-pandemic levels, but now reducing them to the lowest level of the year. We have around R\$11.4 of provisions for an adverse economic scenario alone. The calculation of provisioning needs follows our modeling for expected loss. Our expanded ALL expenses reached R\$5.6 billion in the quarter, or 3.4% of the loan portfolio. We totaled R\$21.2 billion in provision expenses in the first nine months of 2020, compared to R\$14.4 billion throughout 2019. The total provisions on our balance sheet reached R\$45 billion, or 9.2% of the loan portfolio, demonstrating a hardiness and sufficiency even in the most adverse scenarios. While it's true that we've maintained a conservative stance, we must admit that, if current trends continue, we should see a further reduction in expenses with provisions in the fourth quarter.

On page 9, we continue to exhibit an impressive improvement in the 90-day delinquency indicator and stability in short-term delinquency. We see most of our loan portfolio performing well in terms of quality. It's worth pointing out that NPL indicators are also affected by loan renegotiations. We believe today that the peak in defaults for the current crisis will take place in the first, second and third quarters of next year. Our expectations for credit quality have considerably improved, therefore we believe that this peak may be lower than what was seen in the 2015/2016 crisis. Obviously, this depends on how our current expectations progress and on the condition that there is no further downtime in the economy and/or a resurface of the illness.

Moving on to page 10, talking about our NPL, we once again witnessed a low NPL formation during this quarter that was further impacted by deferrals and renegotiations, but did include some good news as we will point out later on.

On page 11, we present the coverage ratio. With the further drop in the NPL ratio and the growth in the ALL stock, the 90-day coverage ratio continued to climb at almost 400%. Considering the breakdown by segment, we see an expansion of coverage in every segment except, of course, the large corporate portfolio. For expanded coverage, in which we include the renegotiated portfolio with NPL-90 days, coverage remains virtually stable.

For the sake of transparency, page 12 provides some rather important new information that offers an excellent view of the positive performance of extended loans, which was even better than we could have imagined at the beginning of the

pandemic when we first discussed it in the first quarter. In the second quarter, total extensions reached R\$61 billion, in which R\$39 billion represented loans that clients had already made the first payment on the day after the end of the grace period. We also had R\$21 billion that were in grace periods and only R\$1 billion in arrears. At the end of September, our renegotiated portfolio was R\$73 billion, R\$54 billion had already returned to normal on-time payment, R\$18.3 billion was still in a grace period and R\$1.1 billion was in arrears. Hence, a small volume of arrears compared to the volume that was extended. We'll have R\$9.2 billion leaving the grace period in October, with R\$6.7 billion leaving in November and only R\$2.4 billion in December. With the information we have today and behavior of payments that took place, we are confident that the credit quality of clients who are still coming out of the grace period will also be good. As such, we really need to point this out: of the R\$74 billion that were extended, R\$54 billion already returned to the payment on time and we only have another R\$18.3 billion in current grace periods that should follow the same payment behavior as the other R\$54 billion. This gives us the right comfort that we made more than enough provisions to face this adverse scenario, right!? Corroborated by an extended portfolio that has a rather good quality (as you can see on the left), 92% of clients who have not been in arrears over the last 12 months, 70% have a real guarantee, 94% have a risk of AA to C, and these clients have a 3-year relationship on average with the bank.

To complement this information, we present the renegotiated portfolio on page 13. This strategy of continuing to support our clients during this difficult time, and thereby re-profiling our clients' debts. Our renegotiated loan portfolio grew by R\$4 billion in the quarter, primarily by clients who preferred not to defer payments but to renegotiate their loans with longer terms. This is almost one-to-one work. We needed to speak with the clients and they chose (there is no point in extending it because in my situation, I need a different situation of debt re-profiling), and then we re-profiled with a longer term, with a grace period, putting guarantees in place. But it is important to note that this renegotiated portfolio has a high level of provisions. Its ALL representing 61.7% of the portfolio and our renegotiated portfolio, mainly this last portfolio, 63% of the renegotiations in the quarter, are less than 90 days in arrears. In other words, clients were going about their normal lives, so this 90-day delinquency of the renegotiated portfolio should go from 11% to 5.9%. Hence, a portfolio that is comprised of good quality clients. We should therefore see lower losses in this portfolio than we had in the traditional renegotiated portfolio.

Switching now to the Net Interest Income on page 14. There was an 8.4% drop in the quarter. This was due largely to the decline in the market portion, which had been well above average in the second quarter, as well as the reduction in the client portion due to the still limited use of lines with better spreads (Individuals and Companies) and the upturn in lines for emergency programs. In the annual comparison, we continued with a 3.5% growth in the total net interest income, with a 2.3% increase in the client portion, despite the overdraft Cap and less usage of credit cards that began back in January 2020.

We see the market portion continuing its solid performance over the next few quarters. The client portion should react to the volume growth with a more favorable mix. This is a good time to point out on this screen that this lower level of NII and NIM is closely linked to those government lines that have lower spreads, but as I said, it has a good level of coverage. So despite the lower spread, we should have a lower ALL or very minor loss. In addition, the limitation of overdraft, clients' lack of use, as I said to all of you, fell from 4.2 to 3.2 of the overdraft balance. And credit cards, a smaller revolving volume, installment payments, but this is just a temporary situation, although life will have to return to normal. By the way, it's getting back to normal. We'll watch that. So, these indicators are trending towards a full recovery.

Fee and commission income, on page 15, showed signs of a recovery in the quarter, thanks to the improvement in the economy. In the quarterly change, we still have a negative performance from loan operations. It was impacted by the reduction of origination in lines with contracting fees, especially concerning companies. This growth in companies, especially in SME's, is much better explained by the growth of emergency lines that do not have fees, unlike lines of working capital, of companies revolving lines that have fees, but this will certainly recover. In the annual comparison, the revenue lines for the Investment Bank and Brokerage stood out. On the other hand, despite the recovery in the quarter, important lines such as Credit Cards and Resource Management are still falling.

The negative performance in cards, as I explained, is due to a drop in the volume of transactions on an annual basis, and in Resource Management, because of the reduction in the management fee for fixed income funds as well as the migration of resources from these funds to other applications like CDB. This effect obscures the solid improvements we've witnessed in the Mix, with an expansion in equity funds, multi-markets, Fund of Funds and Mirror Funds by independent managers.

Now we turn to a crucial item – expenses – on page 16. Our expense performance continues to be optimal and should improve even further in the fourth quarter and into 2021. In the annual comparison, we see the extent of the cost adjustment we've made. We experienced a 7.9% drop in administrative expenses on a quarterly basis and 3.3% over nine months. Personnel expenses dipped 13.3% in the quarter, and 7.6% over nine months. Looking at total expenses, including others, we obtained a decrease of 5.7% in the quarter comparison and a fall of 3.9% over nine months. We are making a significant cost adjustment at the bank right now, which will almost certainly allow for a reduction in costs in nominal terms as far back as the last quarter of 2020 and from 2021 onwards, and we are capturing this reduction that we are doing fully. In order to address the expected costs for this adjustment that was put in place, we made a non-recurring provision for restructuring in the quarter involving termination, rental contracts, employees, restructuring for R\$879 million.

Turning to page 17, we give a few details on these adjustments or part of these adjustments we are making in our network of branches. We've been involved in a major adjustment since the beginning of the year, but this step was further intensified with the acceleration of the trend towards digitizing clients and reducing the use of

tellers at branches by working from home. We will make a reduction this year in the total number of our 1,100 branches. 700 of these will be converted, and a good portion have already been converted (you can see this in the numbers in Business Units) and over 400 of them will be closed this year. We expect that in downsizing into smaller formats, like the ones on the left side above, where we have a hub branch that does all kinds of service for our clients and various satellite branches 4,5,6 or 7, it depends on the number of branches. These branches, called business units, are linked to this branch, but it does not have armored car costs, treasury costs, security costs and 100% of the staff is focused on business and not on back office activities. So, we estimate or find that the cost reduction for these business units is 30% to 40% for a normal unit. Up to now, we finished 683 points, with 163 closed and 520 already converted into business units.

Going to page 18, speaking a bit about the businesses, a part of business acceleration, we have a series of businesses at Bradesco that we believe should be noted because of their strategic importance. So, we can observe the bank's App, capturing the opening of accounts. There have been almost 700 thousand accounts opened this year, with very small churn, and we will undoubtedly open more than 1 million accounts this year through the bank's App. In addition, next has already achieved 3.2 million accounts and will most likely hit 3.7 million accounts by the end of the year. Ágora already has 490,000 clients operating in its brokerage. We recently introduced Bitz, which is an important, strategic business, especially for clients who have a problem or difficulty or restriction to open a regular checking account at the bank. They can have this digital wallet, it complements our offer of products and services, and we've just acquired a company to complement the Bitz known as DinDin. Other acquisitions are ahead. We would also like to point out a number of deals with our specialist banks. Losango specializes in rural loan operations, I mean for personal loan, payroll loans. Bradesco Financiamentos (Financing), in vehicle financing, amounting to more than R\$34 billion in loan portfolio. Bradesco Consórcios (Consortia) is a very lean company, with more than R\$80 billion in letters of credit, generating more than R\$1 billion in revenue. This year will surpass over R\$1 billion in revenue, which offers equity to Bradesco. We are now finalizing the acquisition... the final approvals have come out for the acquisition of BAC Florida Bank, our bank in the United States, which we are closing now. Even maintained, our team is already working there and will likely provide equity to Bradesco and finalizing the agreement we made with JP Morgan to transfer its Private Banking activities in Brazil to Bradesco. We've contacted almost all clients. There is R\$21 billion in AUM. A considerable part of this will undoubtedly come to Bradesco. We are keeping the top talents we have there, bankers, specialists who will also join our private banking here at Bradesco.

We'll now move on to page 19 and discuss the insurance company. Our performance in Insurance continues to be under pressure by the financial sector, primarily due to low interest rates and high IGPM (indexes that correct the securities used in our ALM). On the other hand, for operational income from insurance, we saw a reduction in the quarter due to higher claims. There was an expectation that it would grow a bit in relation to the first and second quarters, but even so we saw a growth of 3.8% in the

annual comparison. Claims also grew a bit in Life insurance, where we provided coverage for those Pandemic cases as a humanitarian issue. There was an increase in claims for health insurance, but they also remained at low levels seen in the same period of 2019 (84.6% in the third quarter of 2020 versus 87.9% in the third quarter of 2019). We made an additional R\$151 million provision in this quarter for an adverse scenario, totaling over 1.2 billion provisions in the nine months of 2020. As such, we are quite comfortable with the provisions from the insurance company as well. But we should stress that, with all the limitations imposed by the pandemic involving greater difficulty in contacting clients and branches working with reduced personnel, we have revenues in premiums of R\$55 billion in the first nine months of 2020 versus R\$56 billion in 2019. So, it's practically the same revenue with a reduction of R\$1.9 billion, which gives us the peace of mind that we'll be able to properly recover revenues from the insurance company.

Turning to page 20, we'll discuss capital and liquidity. The capital ratio of the bank has continued to evolve positively. We obtained an increase of 30bps in the common equity and 40bps in Tier 1 in the quarter. The primary source of capital generation came from retained income in the quarter that we made.

And for closing highlights, I'd like to share with all of you here, on page 21 – which obviously we prefer not to return to an official guidance as it no longer makes any sense because we're already in November – but we bring again the example from the previous quarter some expectations on how the rest of the year should perform. We believe that our loan portfolio will grow a bit more than the market in 2020. The Total Net Interest Income that we previously believed would grow in line with the portfolio should actually grow by a little less, but it should be pointed out that the loan portfolio will grow more than we expected. Fee and commission income will continue to be pressured by the economic environment, but should show a seasonal growth in the fourth quarter. The Income from Insurance will continue to be strained by the lower financial income as a result of low interest rates and the performance of inflation levels, but as I said, recovering revenue. As we demonstrated before, we are conducting an important deep structural adjustment of major costs at the bank. As we spoke about last quarter, we expect nominal costs to drop in 2020 and 2021. Obviously, we will also continue to seek opportunities for the future. As for provisions expenses, we expect an additional reduction in the fourth quarter as well as lower numbers in 2021 compared to 2020. Especially because our models of expected losses are signaling this and the solid performance of the extended portfolio also leads us to this conviction. As for 2021, we are obviously still in the process of completing the entire budget, but assuming that we will not have a significant worsening of the pandemic, even because we are in the last mile for having a definitive vaccine ready for this disease that afflicts us all. We now have a much more constructive outlook. So, even though haven't completed this budget yet like I said, but considering the expectations for 2021, and assuming a scenario where our projections for the economy will actually take place, a GDP drop of 4.5% right now in 2020 and a growth in GDP of 3.5% for 2021, as general guidelines, we can state that the bank's level of performance in 2021 is likely to return to the levels close to

what we saw in 2019. ALL expenses in 2021 should be a similar magnitude to those in 2019, given that, accordingly to our expected loss model, we foresee this provision now in 2020. Total costs will undoubtedly fall in nominal terms compared to 2020. The loan portfolio will grow above the market, and the current projection for the market in 2021 is 8%. We should grow above that. As for the net interest income, as we mentioned before but I would like to re-emphasize, it was effected by lower spreads in the lines that came from the government, primarily because we made these lines for SME's where we have lower margins and smaller spreads in these lines, but there will be less losses, so this should compensate in some way. Overdraft's limited use, the gap that was placed there, the tightening we did on credit score models, this was natural for us to do that, the low usage, less use of credit cards, both of the lower usage volume as well as the diminished volume of rotating installment payments. But like I said before, life will return to normal. It's getting back to normal. So, all of these indicators are trending towards a recovery. Fee and commission income is naturally under pressure. But the gains in scale that we are implementing, as we said, regarding checking accounts opened through the App, the growth of next, the growth of the client base in Ágora, equity that we make from our affiliated companies, insurance company, pension plan, gains that we also bring equity from our Consortium company, BAC coming now, plus the AUM in client operations of Corporate Banking. Thus, all of this provides us a certainty that we will have gained scale and new products that will compensate.

And before finalizing, I'd like to invite everyone to Bradesco Day, which will take place on a virtual basis on November 10. All of the details can be found on our IR website.

Thank you very much everyone for your attention, and we now move on to the question and answer session. Thank you very much.

Announcer:

Thank you. We will begin the question and answer session now. Conference participants with audio in Portuguese may ask your questions. Other participants will remain in listening mode. To ask a question, please press *1, and to remove the question from the queue, press *2. Our first question comes from Jörg Friedman, from Citibank.

Jörg Friedmann:

Thank you for the opportunity to ask questions, I have two questions. The first is to understand a bit more about this level of provisioning that you're working on, it became very clear in Octavio's message that we should expect a drop, not only in the next quarter, but next year. Now, given this comfort, particularly with the extended portfolio and this level of provisioning that the bank attained at 9.2% of reserves per total portfolio, I'd also like to understand why the bank still constituted R\$2.6 billion in additional provisions for an adverse scenario in this quarter? And also, if we should

expect a reversal of provisions as of the coming quarters. And my second question is related to the dividend level, because the bank has reached this Tier 1 of 12.9%, 11.8% of common equity, and we have spoken during this conference about the improved scenario expected. So, after the end of these restrictions on dividend payments by the Central Bank of Brazil, what can we expect for a 2021 payout, some extraordinary dividend for next year? Thank you very much.

Octavio de Lazari Jr.:

Hi, Jörg, good morning, thanks for your question, it's a pleasure to speak to you. As for the levels of provision, I mean, we complemented the provisions at a much lower level now in the third quarter, watching what our models of expected loss are signaling. I mean, despite the good news, which I believe even surprised all of us, including you too, about the solid performance of the payment of extended operations, we think it would be interesting for us to do a bit more tickets in some individual cases in corporate banking, then end 100% provision, so we were very comfortable with the provisions we have today and what our models for expected loss indicate. That's why we've stated that we should expect lower levels in the fourth quarter. Of course, it all depends on the outlooks that we have in front of us. As for dividends, Jörg, obviously we have a limitation imposed by the Central Bank of Brazil this year. But over the next year, if in fact we see an improvement in the scenario, because the entire world is nervous right now due to a reemergence of the virus mainly in Europe and a greater number of cases in the United States. But if, as I said before, we have this vaccine that gives people peace of mind, the economy goes back to normal, and the expectations for the growth of the world economy for next year are very good, there will most certainly be a much higher percentage of dividend payments for our shareholders. Even including, if that's the case, with provision reversals. Everything will depend on how the scenario turns out. These provisions, as we said from the beginning, we have labeled them as provisions for a difficult economic landscape. If the economic scenario begins to look up and our models of expected loss indicate or show that the provisions are above what is adequate, we are of course always conservative, we are always very careful to keep the bank's balance sheet very sturdy, this will certainly revert to interest on shareholders' equity and dividends to our shareholders.

Jörg Friedmann:

Perfect, thanks for your response.

Announcer:

Our next question comes from Thiago Batista, from UBS. You can proceed.

Thiago Batista:

Good morning everyone. I have two questions, the first regarding when you look at the dynamics of revenues for the medium term. Was there any great motivation in terms of what comes from NII, or from fees, or from insurance, that is obvious for you that we will see some important change in this breakdown of bank revenue? And the second question is in relation to operational expenses (fee/opex). When speaking about Pix, you have on one hand Pix, which obviously applies a bit of pressure on your fee. On the other hand, you have the whole process of handling cost. When you look at the two lines together, do you think that the reduction in cost, the drop in opex, will be enough to compensate for the possible drop in fee revenue, with other innovations on the part of the fee? Not just in 2021, but thinking more within the medium term? I just wanted to do one last follow-up on Jörg's question, you commented on the dividend. Is there a chance there could be a buyback? I know you don't used to be active in buybacks, but is it possible to see a buyback in 2021?

Octavio de Lazari Jr.:

Thiago, thank you for your question. I'm glad, in fact, you asked that. If I were to respond to you in one word, I mean, the cost reduction, the opex reduction, can it offset your fees? Yes, it can. Now, let me provide a bit more color to that answer I'm giving to you. The dynamics of revenues in the future, in the near future, let's put it this way. It needs to go through an increase in revenue, due to the equivalence of these businesses that are growing within the bank – so the insurance company first, obviously, as I had mentioned, even in an extremely difficult pandemic scenario like we're going through, we are getting the insurance company in 2019 to have practically the same level of income, and it will increase this level of income through the specialization of its verticals, whether in health or in vehicles, whether in private pension or life insurance – the penetration rate is still very low in Brazil, whether by a consortium company, which is already structured cruising, adding more than one billion in income per month to the bank, the credit card company as well, Bitz, which is just coming out now, next, which is likely to reach its maturity level and begin to provide profits, so there are a range of... BAC, which will bring a equivalence plan per dollar and is small but is in dollars, the businesses we have now with JP, which provides an important ALM portfolio of clients who not only make investments, but buy products, they have insurance, after all. So there is a range of additional fees that will come from a number of businesses that we are working on. So what would I say to you? That in a short period of time, these fees or the dynamics of fees from these diverse businesses will change over time. Could Pix, for example, be a deflator of these service income? I sincerely believe that this could happen, but in a very marginal way. Because not everyone's going out and using Pix to transfer money instead of using TED or DOC. Companies will not make these through Pix. I mean, Pix, like SPB in the past, you remember well, it has a learning curve, a maturity curve for people to use it. So, as it's used more, other bank businesses, other activities, other fees will compensate. Now, regarding opex and these fees, it is absolutely necessary

– I want to give you a number here that I think is important, Thiago. You have this number on the balance sheet, but I make a point of highlighting it. If you take Bradesco's recurring income statement now, you'll see that our net interest income in the nine months of 2020 was 46.5 billion, in other words, the bank has really good revenues. Great, really great, is respectable. And we've had 46.5 billion versus 43 billion in 2019. Meaning, even in this totally adverse scenario, we grew revenues by 3.2 billion, a 7.3% growth. Now when we look at expenses, we had 36.5 billion in expenses in 2019 versus 35 billion now, over the nine months of 2020. Reduced 4%, 1.5 billion less in expenses. But when you look at the numbers nominally, I mean: 46.5 billion in revenue versus 35 billion in expenses, our cost structure is great, as is the case with large corporations. So like Mr. Trabuco, our Board Chairman, says, we have to have a cost structure, a cost of serving, that is tailored to the new reality that corporations will face. Whether as a result of digitizing our clients, a lesser number of branches, employees not dedicated to the back office, but on doing business with our clients. So that's why we are convinced that the percentage of expenses reduction that we are managing to get now in 2020, and that will be accentuated, now in the last quarter of the year, in the last three months of the year, that you will see as soon as the income is announced, there is already a small indication, and you've seen the reduction that we've already gotten this year, will be implemented in its splendor, or captured in its splendor, during or throughout 2020. Let me give you a clear, indicative example, but one that is symbolic of this.

Back in Curitiba, we bought HSBC and we had eleven administrative buildings there. And we knew that we had to reduce it. But reducing is always complicated. Because how you will adapt the building with everyone working there? There was no way. With the beginning of the pandemic, people were all working from home. So we could do the work we wanted to do. Of the eleven administrative buildings we have in Curitiba, we only kept two. Nine buildings were shut down. These nine buildings mean what? A reduction in security, a reduction in cleaning, a reduction in taxes, a reduction in property tax, a reduction in personnel, and naturally, a reduction in rent. And buildings that are placed... those that are not a reduction in rent, buildings that are offered for sale by our real estate agent at BSP, those buildings that are ours. So you see, this represents, 30 million less rent in one year alone, 40 and 25 million less administrative expenses as a whole. And this, in a normal situation, was impossible to do and was done now, during this pandemic. So now you have two out of eleven buildings, and in addition you can put these other nine up for sale, and the appraisal value of these properties ranges from R\$80 to R\$100 million. So, see how much efficiency you can get now with people, for example, also working from home. I mean, in the past I needed a building to hold two thousand people, for an example, to have a call center. With people working from home, I don't need a building to place two thousand people. So the cost will certainly be important. Not just for us, but for any company to maintain its profitability levels. So, for us here, this has become a religion. I'd say that, in the fourth quarter, we finished "cutting the high grass" and, from 2021 on, it's a detail, a magnifying glass. "Sniper shooting" in each area, in each segment, in each business we have, in order to be more efficient. So, this is just to add a bit more color on why this opex and fee, as you said, is important to us. And as for buybacks, which was your last question, it's not a traditional modus operandi of

ours, but we continue to look for solid opportunities. And it obviously depends on market conditions. We will observe this. But it's never ruled out, you can see that we're always asking for the required authorizations to make the buybacks as needed.

Thiago Batista:

Perfect, very clear, thank you.

Announcer:

The next question comes from Gustavo Schroden, from Goldman Sachs.

Gustavo Schroden:

Good morning, thanks for the opportunity. I will ask two questions as well. The first one, I wanted to just go back a bit in that matter of provision. Octavio gave an indication... an expectation, assuming all the information we have so far, and the expectation for an economic recovery, the provision should return to pre-pandemic levels in 2021. I'd just like to understand, if we make an account and exclude, for example, the additional provision that was made now in the third quarter, the cost of credit, it would already be below what it was during the pre-pandemic period. If we assume that ... it means that in our view that a very good crop has emerged, that your credit crop is solid. Is it possible for us, at the end of 2021, to identify a lower cost of credit than in the pre-pandemic? Assuming that if we exclude the additional provision, as I just mentioned, from this third quarter, would it already be below the cost of pre-pandemic credit? This is my first question. The second is about ROE. We already see a significant recovery in ROE this quarter, and based on the information we have so far and the expectations you have for next year, do you think that next year, at the end of 2021, it will be possible to see ROE back to levels near 20%? Thank you.

Carlos Firetti:

Gustavo, we lost that final part of the question, you're talking in this final part about total ROE?

Gustavo Schroden:

Yes, in this cycle.

Octavio de Lazari Jr.:

Thank you, Gustavo, for your question. I think that it's something more along the lines of pre-pandemic in levels of pre-pandemic [sic], of cost of credit. I really think so... not least because we don't know how the interest rate will be, inflation is rising and there may be a hike in the SELIC rate. So I'd say that it is more prudent for us to talk about something pre-pandemic. As for ROE levels, ROE levels were obviously necessarily impacted by the provisions for an adverse economic scenario. And when we're working on the budget for next year, we're already thinking about the best scenario. If you take our balance sheet and look at the bank's operations comparing the first nine months of 2020 versus nine months of 2019, we have an increase in the operational – and I'm taking out treasury here, right? I'll just talk about the pure operational activities of the bank. We made 12.8 billion gross operating income in the nine months of 2019, and we made 16.5 billion in 2020, that is, 29% in the operational alone. I mean, if you include treasury, which was almost 3 billion better than 2019, we will be able to see a growth of 39%, in operational, an improvement compared to last year. So, we're going to work targeting an ROE that we had in 2019. That's our target. Of course, all of this is dependent on their being no further issues... not being a fiscal problem, a financial, economic problem in the country. We have a solution for life to return to normal after the pandemic, but look, you can't prepare a budget with that in mind. The budget has to be targeting normal life in 2021.

Gustavo Schroden:

No, it's great. Just to get a follow up on that last answer, then. If we look towards 2021, your challenge, do you think it will be more of a margin challenge? Or would it still be a challenge involving portfolio quality, and to return, let's say, to a near pre-pandemic ROE?

Octavio de Lazari Jr.:

In terms of portfolio quality, we are very comfortable with the quality of the loan portfolio that we have, including the positive signs that we saw in extensions, and even with renegotiations. So I believe that loan quality is preserving and working on these operations until we have a robust level of provision that we've shown you we have. I think the major challenge for next year is a margin recovery. In other words, to bring in more fees, to bring in more margin in loan operations, as I mentioned before, in large companies. We are looking to get better margins over all aspects, so next year for us is a year of trying to improve on the margin recovery and, obviously, working really hard on the cost, "cutting down on expenses" every day, because it will be important in shaping the corporation's results.

Gustavo Schroden:

Great, perfect. Thank you very much.

Announcer:

Our next question comes from Giovanna Rosa, from Bank of America.

Giovanna Rosa:

Hi, good morning everyone, thank you for the opportunity to ask questions. I have two questions as well. The first is related to the renegotiation. You've already explained a little bit of what happened, but what I'd like to understand is what the percentage of these renegotiations that were made on time is, because what seemed like this fall in NPL 15-90 was primarily due to renegotiations. And also on this issue of NPL, I would like to know if the expectation for a peak of NPL is still in the first quarter of 2021. Then I'll ask my second question.

Octavio de Lazari Jr.:

63% of the renegotiation portfolio is from operations that were less than 90 days overdue, if that is your question, if I understand your question.

Giovanna Rosa:

Actually I wanted to know what the percentage of this on time renegotiation was, 63% was less than 90 days late, but what was the percentage of these operations was on time?

Carlos Firetti:

Giovanna, I'd say that with operations of on time renegotiated, what comes in is part of the extensions that have been coming due and we do a re-profiling, depending on the client's condition. Normally, we don't renegotiate loans on time. In our process, the renegotiation is: the debt is in arrears, there is a collection process, usually up to the sixtieth day, from there comes the recovery team, which handles the renegotiations. What eventually came up with loans is the expiration of the extensions. Part of it... you can compare the size of the renegotiated portfolio with the one that has matured, and went back to paying normally from the extended portfolio. It is a small percentage, the variation of the extended portfolio from the second to the third, but normally people do not renegotiate loans on time.

Octavio de Lazari Jr.:

And you can also see, and this is an important detail, Giovanna, that of this renegotiated portfolio, more than half are individual borrowers. So at what moment does this individual renegotiate? When he/she could no longer afford to pay, for example, an extension. So he/she was already in arrears. So that part that people renegotiated, that he/she was on time, that is, with nothing late, is really minor. I'd suggest to you that it doesn't reach 10% of that volume. So, there's always a very small delay, of a few days, but there is always a percentage of delay in these renegotiated operations.

Giovanna Rosa:

Right, and what about the evolution of NPL?

Octavio de Lazari Jr.:

We have to recognize, Giovanna – and this question is important for you to be asking – that all banks throughout the world have reinforced their provisions due to a concern over the adverse economic scenario. Those that didn't make a provision will have to, because surely, this higher default rate, I have to recognize that today we have a much better expectation than we did in the first quarter, when we talked about the results for the first quarter – our expectations today are much better than they were in the past. But obviously, part of it will come in the first quarter of 2021 and, of course, in the second quarter and also maybe even in the third quarter of 2021. So you're going to get an NPL increase in the next few quarters of 2021.

Giovanna Rosa:

Yes, of course. My other question, also related to loan quality, is that you already consumed an additional provision of 1.3 billion this quarter. I understand that you're at a super high level of provision and that you've made an anticipatory provision, but I would like to understand the rationale of already consuming additional ALL now. Doesn't it seem early, given that the NPL hasn't started showing up yet and it still has a very positive effect on government aid programs?

Carlos Firetti:

Giovanna, it's not that it's consumed. What happened? We're allocating the additional provision to specific loans. We made this provision as a proactive provision for this expected loss based on the modeling and even from the point of view of... and now we started to allocate the provision for an adverse scenario for specific names,

individual taxpayer's ID (CPF), corporate taxpayer's ID (CNPJ), marking them one by one. So it's not consumption. It's simply allocating this provision to specific names.

Octavio de Lazari Jr.:

You took it out of the supplementary provision and moved it into a specific provision. The volume of provisions is the same.

Carlos Firetti:

Even if, for example, you look at the specific generic generation, it is very low. Because of this scenario, generation via 2,082, which depends on credit ratings, is really small. Look at the NPL ratio as well. What we do is, analyzing each case, we do that and, what we initially did as a supplementary surplus, we're allocating to specific credits according to our risk assessment.

Giovanna Rosa:

That's great. Thank you.

Announcer:

Our next question comes from Daniel Weeks, from Garde.

Daniel Weeks:

Good morning, thanks for the call. My question is about investing abroad. I saw that Bradesco was the bank that decreased its investments abroad the most this year. Would you say that you're already at the level that you consider comfortable, appropriate, for investment abroad? And the second is, given that we've had an amendment in the legislation and there will have to be a reduction in overhead related to these investments at the end of the year, and all banks will do it right at the turn of the year. Is there some strategy on your part on how to deal with, not only the flow you will have to buy, but also the other banks, at the very end of the year? Thank you.

Octavio de Lazari Jr.:

Thanks for your question, Daniel. Yes, we've made a substantial reduction in overhedge. I mean, we took it to the level required to comply with the activities, the business that we have outside the country in foreign currency, so today we are at an

appropriate level to fulfill these businesses. You see that if there is any margin, it is very small, it is already irrelevant, immaterial. So we're already at the right level. So, with this appropriate level, we don't see the need for any sudden change in the position of liquidity, or hedge, or overhedge. No, quite the opposite. We're very comfortable with the numbers we have today.

Daniel Weeks:

But just a follow-up, Octavio, given that there will be a change in the law, the overhedge will have to be halved by the end of this year. So my question is, all banks will have to reduce this overhedge in the tax account and if ... this will generate a very large flow of purchases at the end of December. Is there any strategy that you can talk about, or something that will be decided over some time? Thank you.

Carlos Firetti:

This is Firetti. We obviously have our strategies, but that's something we don't comment on.

Daniel Weeks:

Ok. Thank you, Firetti.

Announcer:

With no further questions, we return the floor to the speakers for the final considerations.

Octavio de Lazari Jr.:

Well guys, thank you very much for your attention. It was a pleasure to be with you all here. Have a great day, a great week and a great holiday too. Thank you all very much for your attention. We are very comfortable with the bank's numbers. I think the bank's balance sheet is very robust. It is very well provisioned. The expectations that we have for the last quarter, for next year, regarding our bank are also very good and we see that homework was done as necessary to be done. Of course there are challenges ahead. This is absolutely natural, but we see our bank, our corporation with a balance sheet with robust numbers to face this whole market of changes that we will certainly face throughout 2021. Thank you very much for your attention and a good day.