# Q1 2021 Earnings Call

## Company Participants

- Carlos Firetti, Business Controller and Market Relations Director
- Leandro de Miranda Araujo, Executive Deputy and Investor Relations Officer
- Octavio de Lazari, Chief Executive Officer
- Renato Ejnisman, Chief Executive Officer of Next

## Other Participants

- Carlos Gomez, Analyst
- Jason Mollin, Analyst
- Jorge Kuri, Analyst
- Mario Pierry, Analyst
- Thiago Batista, Analyst
- Tito Labarta, Analyst

## Presentation

### Operator

Good morning, ladies and gentlemen, and thank you for waiting. We would like to welcome everyone to Bradesco's First Quarter 2021 Earnings Conference Call. This call is being broadcasted simultaneously through the Internet and Investor Relations website, bradescori.com.br/en. That address, you can also find the presentation available for download. We inform that all participants will only be able to listen to the conference call during the company's presentation. After the presentation, there will be a question-and-answer session when further instructions will be given. (Operator Instructions)

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of Banco Bradesco's management and on information currently available to 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 Banco Bradesco and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I'll turn the conference over to Mr. Carlos Firetti, Business Controller and Market Relations Director. Mr. Carlos, you may proceed.

### Carlos Firetti {BIO 2489005 <GO>}

Hello, everybody. Welcome to our conference call for the discussion of our first Q 2021 results. We have today with us our Chief Executive Officer, Octavio de Lazari; our Executive Vice President, Andre Rodrigues Cano; our Executive Director and Investor Relations Officer, Leandro Miranda; Oswaldo Tadeu Fernandes, our Executive Director and CFO; and Bradesco Seguros Chief Executive Officer, Ivan Gontijo.

For starting the presentation, I turn the floor to Leandro.



## Leandro de Miranda Araujo {BIO 21205170 <GO>}

Thank you very much, Firetti. Good morning, everyone, and welcome to our first Q '21 earnings conference call. As we all know, the first quarter was marked by the worsening of the COVID-19 pandemic situation, with the second wave unfortunately leading to a new peak in case and victims, much as what we have witnessed in 2020. We believe that restrictive measures adopted in March in most states somewhat controlled the spread of the virus and thereby reduced cases and hospitalizations. Despite levels remaining high, we believe that we will see an improvement in the statistic over the course of May, the worst-case scenario we believe is going to be June, and even greater reduction in restrictions, especially as vaccination progress.

We sympathize with all those impacted by the disease and thank our employees for the full efforts during this difficult time. The impact on the economy in 2021 appears to be lower than it was in 2020, probably due to the fact that people and business are better prepared to conduct business in the midst of the restrictions.

Our performance was solid in the first quarter and the second wave of the pandemic had no significant bearing on business dynamics, with the exception of a natural deceleration in the origination of some credit lines. We now see signs that appear to indicate an improvement in the scenario of the pandemic. We believe that this improvement should continue throughout May as some of the restrictions are already being relaxed in a number of states. With vaccination efforts continuing, we expect that risk groups will be vaccinated at the end of the first half of the year, which will allow the economy to see a more pronounced recovery starting mid-May or June.



We now move on to slide three. We have revamped our corporate strategy to further reflect our ambition, viewing our clients as our inspiration. A practical example of this is the 100% client program, which establishes Bradesco commitment to apply the best market practice available to transform our business model and make sure that our clients are always at the center of our attention. Another pillar of our strategy is digital transformation, improving the way we do things with an active connected and innovative mindset. We have a solid foundation in the people pillar, our team. They are performing professionals who are totally committed to ethics, transparency and respect. They are really awesome. And, of course, we can't leave out sustainability. After all, we are a company built to last and to provide value to all stakeholders. Our purpose is at the center, it's what drive us, it's the impact we strive to create and change we want to bring about people, companies and society as a whole.

Turning now to slide four, we have our financial highlights for the first Q. We posted a very strong result in the first Q with a profit of BRL6.5 billion, an increase of more than 70% compared to a year ago and a quarterly ROE of 18.7%. Our operating income was BRL9.7 billion, rising both in a yearly and quarterly comparison, which is the highest in the -- in our historical series. The loan portfolio grew 2.6% in the quarter and 7.6% when compared to first Q '20. Our Basel Tier 1 ratio remained at a fairly comparable level of 13.6%, a substantial recovery of 220 bps compared to a year ago. Operating expenses dipped 4.7% in an annual comparison and 2.4% compared to the previous quarter, an extraordinary performance resulting from the optimization we promoted in our structure in 2020. The 12-month efficiency ratio reached 45.3%, down by 3.8 percentage points in the annual comparison.

Let's now move to slide five, in which we can present our P&L. As we mentioned before, we posted good results in the quarter. Net interest income rose 7.4% annually with growth in the client portion and our still strong performance in the market portion as well. Our expanded ALL expenses dropped once again this quarter. Insurance operations reported a healthy recovery with emphasis on premiums as well as in its financial income. In costs, as I mentioned before, we maintained an excellent performance.

The next slide, we show details on all of our lines. Turning now to slide six, we can see that funding shows a positive evolution in the annual comparison. Deposits from clients net of compulsory deposits grew 18.2% and the total fund 12.8% in the annual comparison. Our loan funding ratio ended quarter at 87.5%, which shows our high degree of liquidity in relation to loan operations.

Turning now to slide seven. As mentioned before, the total portfolio grew by 7.6% in 12 months. The growth for individuals was 13% with an emphasis on real estate financing which grew 38.1% and payroll deducted loans which grew 11.5%. We have a strong focus on real estate, with a very competitive origination process and channels. Our real estate financing is offered digitally and even the contract is now signed through digital methods with some notaries. Growth in SMEs was 18.6%, mainly due to the lines of the emergency programs and the consolidation of BAC. Just to let you know, 9 represents 5% out of the 18.6%. For large companies, the annual comparison was somewhat hampered by the solid growth of working capital lines at the start of the pandemic and greater access to capital markets. Loan origination remains at a pace that we consider to be very good and we believe it will intensify as the economy begins to reopen.

Turning now to slide eight. Our expanded ALL expenses fell to BRL3.9 billion in the quarter, consistent with our expectations for the year. We carried out a BRL1 billion supplementary provision over the quarter, reinforcing our stock of provisions, given the expectation of worsening ratings and the consequent provisions for those clients who extended their debts, but did not pay the first installment. However, the performance in this quarter is fully in line with the center of the guidance for 2021. The coverage ratio over 90 days and including renegotiation remain at very comfortable levels.

We will now take you to take a look at slide nine. We'd like to point out that we provided a chart with an extended historic information back to December 2008. As we had expected, the delinquency ratio over 90 days registered light increase, shifting from 2.2%

in the previous quarter to 2.5% in this quarter. The rise was seen in individuals and SMEs. This increase is in line with expectations and occurs as a consequence of seasonality in the beginning of the year as well as a consequence of reduction in the pace of renegotiations and the end of grace periods.

We provisioned less than the formation as a significant portion of delinquencies came from renegotiated portfolio, therefore, from operations that already had a high level of provisioning. We believe that delinquencies will continue to rise gradually and reach an even higher level at the end of the year. This level will probably not be much different from pre-pandemic levels, we are comfortable with that. We think that the good quality of credit is due to the quality of origination during the periods prior to the pandemic and to the solid financial health of clients overall as households have accumulated savings throughout these periods.

Slide 10 details the extended portfolio. The balance of extensions continued to shrink, totaling BRL44.1 billion as amortizations continued. As of March 31st, this balance was composed of BRL37.4 billion on time, meaning that they came out of the grace period payment of at least one installment, BRL2.9 billion was still within the grace period at the end of March and we would like to point out that 55% of this amount has already came out of the grace periods in April and are up-to-date, they are on time. And finally BRL3.9 billion in overdue loans, which are operations that came out of the grace periods and are overdue for more than 30 days. These represents only 0.7% of the Bank's total loan portfolio. We continued to permit extensions during the first quarter, but the volumes were minor. We believe that we may see a moderate increase in the second quarter, but definitely not the intensity witnessed in 2020.

We now proceed to slide 11. Our renegotiated portfolio was stable compared to the previous quarter, which halted the growth cycle. This was due to a gradual return to the renegotiation conditions in place before the pandemic. We witnessed an increase in delinquencies within this portfolio, which reached 14.4%. However, this level is still well below the historical average. We believe that delinquencies in this portfolio will continue to add slightly higher and we can state that the renegotiated portfolio will be one of the drivers for the rise in our delinquencies over the upcoming quarters, which is totally in line with our expectations. On the other hand, we emphasize that this portfolio contains high level of provisions, 64%. As a consequence of this, the rising delinquencies will lead -- will not lead to significant pressures in terms of new provisions. We are very well covered.

Now, let's take a look at slide 12. The total financial margin performance well in the year-on-year comparison posting a growth of 7.4%. The client portion remained stable over the quarter and grew 2% annually, mainly due to the growth in volume and the mix favored by the solid growth in individuals. These factors more than offset the fall in the spreads and the fewer number of days. We expect a recovery in the client portion throughout 2021, in line with our guidance. The market portion performed well in the quarter despite a decline relative to the fourth quarter, where we posted a rather strong performance. As we indicated before, we expect a drop in the market portion for 2021 in relation to 2020, but in levels around 2019.

Turning now to slide 13, we had a drop in fee and commission income in both the quarterly and annual comparison. In annual terms due mainly to the baseline comparison effect. The first quarter of 2020 still did not fully reflect the impact of the pandemic. Despite the drop in the annual comparison, the fee income result was in line with our budgets, which forecasts a better performance in the second half along with the guidance to be fully achieved. This is due to the base of comparison and the reopening of the economy in the second half.

Important lines have been pressured by specific factors. The card line suffered the most in co-branded and private label, as many retailers had restriction in operation due to the lockdowns. The fund management line as we had a strong migration of resources to fixed income and reduced management fees in the first half of 2020. And last but not least, checking account line, due to the lower volume of transactions in the network of Bank correspondents due to the restrictions of the operation of commerce, as I have said before, due to the lockdown.

We now turn to slide 14, where we have the operating expenses. Our performance in cost remains a strong point. The following expenses reflects our strict discipline in cost management and the adjustments we made last year when we revised our cost of serving, including the closing of branches and converting branches into servicing points, taking advantage of the opportunities created by the change in our clients' behavior. We will continue our cost reduction efforts in 2021 and over the next years.

Turning now to slide 15. Our insurance operations posted a solid recovery in net income which grew 40.6% as well as the operating income which grew 7%, both in the annual comparison. The performance is above guidance and should converge on guidance throughout the year. The highlight of the quarter was the 3% growth in premiums compared to the pre-pandemic first quarter of 2020, driven by auto and insurance, which grew 7.3% and 6.5%, respectively. The financial income also registered a positive performance, primarily due to the income on positions in equities, multi-market funds and IPCA indexed securities. Insurance claims were impacted by the health and life segments, which were affected by higher frequency related to the pandemic.

We now move on to slide 16. Our Tier 1 capital ended the quarter at 13.6%, an increase of 2.2 percent points -- percentage points compared to the start of the pandemic in March of last year. The fall of 20 basis points over the previous quarter was due to mainly market-to-market of securities available for sale and the growth in loan operations. Our capital positions has held to rather comfortable levels with the common equity at 12.6%. We recently announced a share buyback program that complements our practice of distributing capital through dividends and interest on shareholders equity.

Turning now to slide 17, where we can see that we continued to make advances in digital with an ongoing focus on clients' needs. In this quarter, BIA had 130 million clients interactions, almost 5 times more than in first quarter '19. In the month of March alone, there were 51.6 million client interactions. And it was not just data, since these are transaction. As we have already mentioned in the earnings report, for example, it delivered 2.5 million reports to clients in March. The CRM 2.0 that we provided you in

2019 already results in 5 times more active contacts with clients and with a high degree of personalization.

Now, we turn to slide 18. Digital continues to widen its share of total transaction as traditional and hybrid clients are increasingly adapting online methods to conduct transactions and business. Around 98% of our total transactions are now done digitally. Annually, we saw a 21% growth in our mobile clients and 16% in digital clients, which also accounts for Internet banking. The volume of cash transactions is 83% lower than it was in the first quarter 2020 and the volume in mobile financial transactions increased by 75% over these periods.

We now go to slide 19 to discuss our three digital businesses. AGORA reached 632,000 clients, a growth of 52% in year one -- in one year, while AUC grew 55%. AGORA has one of the most comprehensive offers on the market and we continue to grow. Next has further accelerated its growth curve and is now at 4.4 million clients, almost double its base a year ago. The goal for this year is to reach 7 million clients. Bitz, our digital wallet, was introduced in September 2020 and has already exceeded 0.5 million accounts. It's expected to grow significantly throughout the year. And we would like to remind you that Bitz offers clients a complementary product to Next and Bradesco. The marketplace and cashback features offered at Next are now becoming available to Bradesco's clients. We introduced a pilot for prime segment this quarter with a marketplace that includes 70 partners. We will soon expand this pilot with more partners and we are working on combining the vision of Viva Prime, cashback and Livelo points into one place within the Prime app. Ultimately, we want to offer clients a clear overview of the benefits they can take advantage of. We plan to expand these clients in other segments in the near future.

Turning now to slide 20, regarding to our ESG agenda. We are very, very proud to announce that for the third consecutive year, we have won the Silver category in the S&P Global Sustainability Yearbook awards. We are among the top five banks in the whole world and the only Brazilian bank there. This is a result of our commitment and continued progress in implementing the best ESG practice at Bradesco.

Speaking of commitment, we are taking a new step today in Bradesco's mission to promote socioeconomic development and encourage the initiatives needed to transition to an increasingly sustainable economy. We would like to announce our goal of allocating BRL250 billion in corporate credit lines, providing advice on the capital market operations and financial solutions with a focus on promoting a positive social environment impact by 2025. By doing this, we expand our business scope to support the targeted sectors, while helping clients transition to best practice from any sector.

We now move on to slide 21, our last slide today. Despite the intensification of the pandemic in Brazil during the first quarter, we were able to post a solid performance in line with, in some case above, our budget for the quarter. We are performing at the top or even better than the guidance when it comes to expenses and insurance. In annualized terms, we have performed at the center of our guidance for ALL, at the bottom of our clients for NII and below of our guidance in the loan portfolio and fee and commission income. In terms of these two weaker performing lines, we can see an accelerated growth in client NII primarily in the second half due to the reopening of the company -- the economy and a growth in lines with higher spreads. The annual growth in the loan portfolio has been hindered momentarily by a baseline comparison effect in large companies, which will lead to a natural acceleration of the second half of the year with a more beneficial base and a pickup in business gradually increasing towards the center of the guidance. We also see a potential acceleration in growth in individuals and medium-sized enterprises.

Finally, we believe that there will be a natural increase in fee and commission income as the economy begins to reopen with an impact on cards income, collections and payments with increased volumes. Investment funds, through a shift in the mix and potential growth. And DI funds with an increase in the SELIC rates as well as a more favorable baseline comparison. As we previously mentioned, this line went through some adjustments in the first half of 2020.

In summary, we expect our performance to improve over the upcoming quarters. As such, we believe that our guidance remains consistent and there is no reason for any changes at all.

I would like to thank everyone for your time and attention so far. We will now move on to the question session.

# Questions And Answers

## Operator

We will now initiate the question-and-answer section. (Operator Instructions) Our first question comes from Jorge Kuri of Morgan Stanley. Jorge, your line is open. You may proceed.

## Q - Jorge Kuri {BIO 3937764 <GO>}

Hi. Good afternoon, everyone, and congrats on the numbers. Sorry, I'm not sure you mentioned this at the -- talking about the guidance in that last line, maybe you did, but a little bit difficult to hear. But I wanted to ask you about the guidance range for expenses. You're evidently in the area, of course, but you're at minus 5% -- minus 4.7% for the first quarter. If I look at your last 12-month performance, you're minus 6%. Do you think it's possible that you end up at the better part of your guidance for expenses, which is minus 5%? And same question for provisions, you did BRL4 billion -- BRL3.9 billion, but I'm assuming that includes the BRL1 billion in additional provisions. So, is it possible that you end up excluding that BRL1 billion in provisions at the low end of the guidance of BRL14 billion? Thank you.



## A - Leandro de Miranda Araujo {BIO 21205170 <GO>}

Hi, Jorge. Thank you very much for your questions. I'm going to go straight forward here to the points. Operating expenses, we expect them to grow, in the worst case scenario, in the mid of the guidance. So, we shall continue to perform very, very well in operating expenses. Of course, we shall see some adjustments regarding to the compensation of the employees, but we shall never exceed the center of the guidance there. Regarding to expanded ALL, we shall see the provisions growing to the mid of the guidance. It shall be in a range, I would say, between BRL15 billion or BRL16 billion. This is our base case. But if the economy really recovers as we believe, we shall even be lower than that.

## Q - Jorge Kuri {BIO 3937764 <GO>}

All right. Thanks. That was clear. Thank you very much.

## A - Leandro de Miranda Araujo {BIO 21205170 <GO>}

Thank you.

## Operator

Our next question is coming from Mario Pierry of Bank of America. Mario, your line is open. You may proceed.

## Q - Mario Pierry {BIO 1505554 <GO>}

Hi, everybody. Congratulations on your results. Let me ask you two questions and also related to your guidance. When you talk about the outlook for NII of clients, how should -- the growth rate should accelerate second half of the year and you talk about better mix, the economy reopening, but can you talk about the impact of a higher rate environment in Brazil and how that could have a negative impact on the funding costs in the short-term? So, if you could give us a little bit more detail, your expectations of rates and the impact that it could have on NII growth this year.

And second question also related to fees. As you mentioned, while you're expecting better volumes in card, you're expecting better mix in the asset management to support the fees. So, what concerned me on your fees is that what when we look at your checking account fees, they're down 2% year-on-year, while your client base grew 8%. So, we see significant pressure on current accounts, can you be a little bit more specific about your views on the outlook for current account fees? Thank you.



## A - Leandro de Miranda Araujo {BIO 21205170 <GO>}

Thank you, Mario. Basically the very -- in the very beginning of the year when we released this guidance, we were very conservative and we are keeping in this sense. The client portion shall go to the center of the guidance naturally, pretty much because as we are reopening the economy, you shall have more transactions and you shall be able to change the mix of products as well as the mix of clients into a more -- into a riskier standards. Just to give you a flavor, when you have the retail closed, you are not able to work so much in SMEs and the individuals portion as we were conservative, we decreased the amount of credit cards, personal loans and we increased the focus on mortgage financing and compulsory loans, which are less risky lines of products.

Besides that, it's important to mention that when you compare to the first quarter of 2020, during two-month pretty much, you had large companies raising a lot of liquidity here and they have lower margins than SMEs and individuals. Therefore, from now on, we do not expect to have such a base of comparison. There's other to one. And so, we shall see an increase in this client portion. So, better mix and better -- of products and clients shall be the answer together with the reopening of the economy. And, of course, as Octavio has pointed out earlier, it pretty much depend on the vaccination process. So, we are confident that by May or June, we shall see this improvement in the economy.

Regarding to fees and commissions here into services, well, we have here again a very conservative guidance from 1% to 5%. We believe that we shall go to the lower portion of the guidance to the center, so we shall be in the first half year of our guidance. And we can give you some overviews regarding to our lines. And, of course, my colleagues here will be more than happy to help me out to complement anything. First of all, credit cards. With the reopening of the economy, suspension of the restrictions due to the lockdown, you shall see the retail and, of course, our base of private labels and white-branded credit cards shall have a much better performance than the previous year. Retail through Bradesco Expresso also is important for our tariffs.

Regarding to asset management, we made significant adjustments in management fees. And now, we're seeing a growth of migration to better paid management fees and performance fees into our funds. Besides of that, there was a lot of withdraw from fixed income funds to buy CDs from the banks and we benefit from that in our liquidity. Capital markets investment banking has performed extremely well. We are positive for the year, but it pretty much depends on the opportunity, the windows that we see and the macro has a significant impact on that. And on insurance, we -- the premiums were very good and we intend to keep on doing that.

If my colleagues want to complement anything more than that --?

## A - Octavio de Lazari {BIO 17539074 <GO>}

Yeah. Just one point on the funding side, US, the higher rates actually have a positive impact in the funding results that go in the client market, so this should be positive. When you look to the client NII, we have there apart from this funding results mostly spreads, so basically the increase in rates don't impact that. The -- any rate variation actually is managed by our treasury and this is in the market NII.

## Q - Mario Pierry {BIO 1505554 <GO>}

Thank you.

## A - Leandro de Miranda Araujo {BIO 21205170 <GO>}

Thank you, Mario.

## Operator

Our next question is coming from Jason Mollin of Scotiabank. Jason, your line is open. You may proceed.

## Q - Jason Mollin {BIO 1888181 <GO>}

Thank you very much. My first question is a follow-up on the sensitivity of the client portion and the treasury portion to rates. Maybe if you can just give us an idea, all else equal, and obviously that's not the way you manage the balance sheet, but if all else equal at the end of the first quarter, let's say, a 100 basis point increase in the SELIC, what does that do for your client portion and your treasury portion? I just want to try and clarify that. And then secondly on the fees line, it sounds like apart from what you said about adjusting management fees and asset management that it was -- the reduction in the fees from cards and current accounts was related to activity. But can you give us some sense of what's going on on the pricing there? Competition, you've seen free checking account, you got -- everyone has their version of a free checking and other fees. So, what's going on with the pricing side, not just the activity? Thanks.

## A - Leandro de Miranda Araujo {BIO 21205170 <GO>}

Okay, Jason. Let's start from the beginning here. You're pretty much asking for sensitivity in 1% SELIC rate. Right? We believe that there is no negative impact on the clients' portion, it's pretty much dependable on economic conditions and competition. So, we do not believe shall -- it shall create us any problem. We have a benefit in our deposits since because of the floating we can invest more, so it's 1% of our deposits. And besides that, assuming that we wouldn't hedge, we wouldn't come along with any market strategy, what is totally unusual with the bank, if we are just stopped and we fire everyone there in the treasury department, for 1% SELIC change, we shall have a BRL900 million impact.

## A - Octavio de Lazari {BIO 17539074 <GO>}

Yeah. Just complementing that, this exercise is based on 2020 figures and also things keep changing as Leandro said.

## A - Leandro de Miranda Araujo {BIO 21205170 <GO>}

Yeah. But we are active, we are dynamic. And so, it should never happen, it's just a theoretical to stress your model.

## A - Octavio de Lazari {BIO 17539074 <GO>}

On fees --

## Q - Jason Mollin {BIO 1888181 <GO>}

Great. Thank you.

## A - Leandro de Miranda Araujo {BIO 21205170 <GO>}

Yeah. On fees, basically as I have just answered Mario, it pretty much depends on scale and the recovery of the economy because basically we see competition there, but credit cards, you have seasonality in the first quarter and you have the retail pretty much shutdown. So, as the economy reopens, the barriers end for lockdowns, we shall see it coming strong, especially because we have a significant part in white label and private label loans.

## A - Octavio de Lazari {BIO 17539074 <GO>}

Yeah. I think it's important to emphasize the base of comparison effect. We are comparing a very -- an almost normal quarter last year with a quarter that actually is impacted by the pandemic, it's impacts in the credit cards, there was also in the beginning of last year a very important change in terms of volumes of fixed income mutual fund that went to deposits, also a revision of management fees in asset management and we believe as we go through the year, as Leandro said, we go to a different base of comparisons and our performance in fees will naturally improve.

## A - Leandro de Miranda Araujo {BIO 21205170 <GO>}

But we are confident that we shall reach the center of the guidance. We shall have two years.

## Q - Jason Mollin {BIO 1888181 <GO>}

Great, thank you very much.

## A - Leandro de Miranda Araujo {BIO 21205170 <GO>}

First half and the second half, two different years.

## Q - Jason Mollin {BIO 1888181 <GO>}

Thank you, and congrats on the strong first quarter.

## A - Leandro de Miranda Araujo {BIO 21205170 <GO>}

Yes.



## Operator

Our next question is coming from Tito Labarta of Goldman Sachs. Tito, your line is open. You may proceed.

## Q - Tito Labarta {BIO 20837559 <GO>}

Hi. Good afternoon. Thanks for the call and taking my question also. My question is looking at the digital initiatives that you're doing, you showed some good data (inaudible) good trend in Next (inaudible)

## A - Octavio de Lazari {BIO 17539074 <GO>}

Tito, sorry.

## Q - Tito Labarta {BIO 20837559 <GO>}

How do you think about the -- yeah.

## A - Octavio de Lazari {BIO 17539074 <GO>}

Yeah. We can't hear you. I can't hear you. It's -- we can't -- can you maybe pick up the phone or talk slower?

## Q - Tito Labarta {BIO 20837559 <GO>}

Yeah. I'm picking up the phone, I'll try to speak louder. I don't know if that helps. Can you hear me now? Hello?

## A - Octavio de Lazari {BIO 17539074 <GO>}

Not really. Yeah. Try to speak slowly.

## Q - Tito Labarta {BIO 20837559 <GO>}

I'm trying to speaking here louder. Is that better?

## A - Leandro de Miranda Araujo {BIO 21205170 <GO>}

Yeah. Now, it's better. Okay.

## Q - Tito Labarta {BIO 20837559 <GO>}

You can hear me now?

## A - Octavio de Lazari {BIO 17539074 <GO>}

Yeah.

## A - Leandro de Miranda Araujo {BIO 21205170 <GO>}

Yeah.

## Q - Tito Labarta {BIO 20837559 <GO>}

All right. Yeah. My question is just on the digital initiatives. You gave some good data there. How do we think about the impact on this? Like when you look at some of this impact -- the gaming clients that don't necessarily have revenues at your level. And given some of the revenue pressures that we're seeing, I understand that should improve as the economy recovers. But as we become more and more digital, do you think that that should not necessarily boost your revenues and you continue to see pressure there, the game client, conversely perhaps offset by continued cost control? Just to kind of think about how that competitive environment and digital initiatives should impact the revenue growth and expense growth and where you see the benefit from that? Thank you.

## A - Leandro de Miranda Araujo {BIO 21205170 <GO>}

No. I got it. Tito, thanks. Let's start from the end this time regarding to costs. You are totally right. As the clients get into more and more in digital channels, we are able -- as Octavio has emphasized earlier, we are able to either close or transform our branches into point of services, increasing the level of business. We can also reduce the space in the branch and give it back to the lessors. So, therefore, there is a significant reduction in costs for us as the clients got more digital as we have seen in 2020. So, it pretty much shall see the continuation of this trend.

Regarding to pressures on fees, we have to take a look into scale and we have to consider the costs associated with that. But as the economy grows, you have all kind of clients. And they also need important products, such as credit and they also need to have the whole combo of banking services and products. Therefore, we believe we have an agenda there and we have various strengths that shall be seized. Of course, the open banking, it reduced our market share initially. If you just consider that, we are stopped, but we are not. We are active. We are being proactively discussing and analyzing a lot of opportunities of growth with this enhanced competition as you can get market share from the other banks. So, if bank -- if the newcomers shall get market share from the incumbents, we are in a position as we are the most advanced digital bank in Brazil to get market share from the other competitors as well.

## A - Renato Ejnisman {BIO 17266174 <GO>}

If I can add, this is Renato Ejnisman from Next. On the big data and analytics front, I mean, I can tell you a little bit about our experience in Next and the same I know is happening at other areas, including Bradesco itself. But the use of big data, I mean, it helps on the two fronts that you mentioned. On the expense front, we have models to calculate and try to quantify the propensity to churn. We also have models to calculate the propensity to defaults. Obviously, these are algorithms that we are developing and hopefully soon introducing machine learning aspect, so that it improves over time by itself without further manual or further human input. So, that's something that significantly reduces expenses. And on the revenue side, we also have models to see what is the propensity to consume some products. And at the same rate that I mentioned, I mean, the next step will be to introduce machine learning aspect, so that over time, you don't have to have any human input and they just get more and more efficient over time.

## Q - Tito Labarta {BIO 20837559 <GO>}

Okay, thank you.

## Operator

Our next question is coming from Thiago Batista of UBS. Thiago, your line is open. You may proceed.

## Q - Thiago Batista {BIO 15398695 <GO>}

Hi, guys. Thanks for the call, for the opportunity. I have one question about the insurance business. We saw this quarter a good improvement in the profitability of the insurance business, it achieved about 20% this year versus mid-teens in the previous quarters. This level of profitability or results of insurance business, do you believe that this is recurring? We can see this drive even some additional improvement going forward. So, how do you guys are seeing the result of insurance business?

## A - Octavio de Lazari {BIO 17539074 <GO>}

Thiago, basically, we performed this quarter a little bit above our guidance. Our guidance has a growth -- considers a growth of 4% for the insurance line. I think the -- there was some good news this quarter related to premiums. I think we performed better. I think it's a good sign and it's the base for actually keeping constant in the evolution of these results. We should see going forward a continued pressure in some claims due to COVID on life insurance, health insurance. But as you guys know, we have constituted provisions. I think we are well prepared to face this environmental higher claims. On the financial results, an environment of higher interest rates actually somehow helped. So, I would say, I think we are very comfortable with our guidance of 4% growth for the line, maybe we could do better. That I think at this point is the best I can tell.

## Q - Thiago Batista {BIO 15398695 <GO>}

Thanks, Octavio. And just to confirm one point. There is no reversion of the provision that the bank have insurance booked in the previous quarter, so there is no reversion. Correct?

## A - Octavio de Lazari {BIO 17539074 <GO>}

No, we didn't revert anything this quarter.

## Q - Thiago Batista {BIO 15398695 <GO>}

Perfect. Thanks so much.

## Operator

Our next question is coming from Carlos Gomez of HSBC. Carlos, your line is open. You may proceed.

## Q - Carlos Gomez {BIO 15024854 <GO>}

Hello. Good morning. Congratulations on the results. Given that there's -- first, can you comment on BAC, the bank in Florida in 2017 you acquired, what are your plans there? Is this the first step? Do you want to go to join Florida in the expansion offer? And second, the Central Bank has recently published a report regarding the influence of the positive credit bureau, explaining how it reduces the cost of credit for a lot of clients. So, it's starting to make a dent on the margins of the products that you offer? And how do you expect to counter that benefit? Thank you.

## A - Leandro de Miranda Araujo {BIO 21205170 <GO>}

Carlos, we had some difficulties to understand you, especially on the second question. We understood that the first one is about BAC Florida. But if you could repeat maybe slower --

## A - Octavio de Lazari {BIO 17539074 <GO>}

The second question at least.

## A - Leandro de Miranda Araujo {BIO 21205170 <GO>}

-- second one.

## Q - Carlos Gomez {BIO 15024854 <GO>}

Yes. My apologies. The second question is about the influence of the positive credit bureau in Brazil in terms of pricing the products. Is that making the market more competitive for you, it means that reducing the margin that you can charge on consumer credit? Thank you.

## A - Leandro de Miranda Araujo {BIO 21205170 <GO>}

Carlos, Leandro speaking. I'm going to address BAC and then your -- Carlos Firetti will address the second one regarding to the credit bureau. Okay? Pretty much at BAC, we have a wealth management strategy, it's key for our clients to have the ability to have a checking account, credit cards, mortgage financing at a bank in US. It has been a long-term demand from them and the appetite and the willingness of clients to participate has been outstanding. Besides of that, BAC also have a brokerage house in which we can help clients to invest their money throughout investment funds and secure debt or equity there. So, the point is, we shall be able from now on to provide a full array of alternatives regarding to banking and investment products there in Florida.

Regarding to expansion, we want to feel the American market, we want to feel how clients feel this experience, but initially our focus is to stay in Florida. We do not want to expand throughout other states. It's important to mention that BAC has e-bank, that is an app in which BAC is pretty much able to raise funding in almost all over US states. They have local licenses in almost of all US states. And, therefore, BAC has an ability to raise funding on a very cost-effective way, it's outstanding. And BAC, of course, will keep on its regional strategy of financing banks throughout Latin America and Brazil and support any Brazilian company that is a multinational and it services there.

## A - Carlos Firetti {BIO 2489005 <GO>}

Carlos, regarding the credit bureau, I think this is a very important development for Brazil, for the Brazilian market as a whole. In our case, as you know, we have a lot of information and we have experience. We have been investing a lot, and especially over the last few years in credit models, in data. So, we believe our models and the information we have, it has allowed us to originate more and more loans and very good credit quality.

The credit bureau, in our case, allow us to bring new information that potentially complement the data we have and allow us to actually eventually approve loans for clients that we doubt with our own models. Eventually, we would -- we wouldn't consider credit given this complement of information. As you know, we are shareholders of Quod, a credit bureau on which we have as partners the other bank, it's another credit bureau that provides also information and -- for which we consume data. I think for the market as a whole, it really helps other players that don't have as much information as us to have access to client information. But we believe that considering our experience, our models and all -- everything we have invested in these models, we continue with an advantage and we also have a very good access for originating loans. That also is something very important in this process.

## Q - Carlos Gomez {BIO 15024854 <GO>}

Thank you very much for your answer.

## Operator

Excuse me, ladies and gentlemen. Since there are no further questions, I would like to invite the speakers for the closing remarks.

## A - Leandro de Miranda Araujo {BIO 21205170 <GO>}

Well, first of all, once more, thank you very much for making the time to be with us. We are very proud of the results we are presenting and we are even more confident in our performance from now on as we see advancements in logistics of the health situation and we are confident on the recovery of the economy. Thank you once more. Have a great day.

## Operator

That does conclude Bradesco's conference call for today. Thank you very much for your participation. Have a good day.