Y 2021 Earnings Call

Company Participants

- Carlos Firetti, Business Controller & Market Relations Director
- Leandro de Miranda, Executive Director and IRO
- Octavio de Lazari, Chief Executive Officer,
- Renato Ejnisman, Chief Executive Officer, Digital Bank Next

Other Participants

- Carlos Gomez, Analyst
- Geoffrey Elliott, Analyst
- James Donald, Analyst
- Jason Mollin, Analyst
- Jorge Kuri, Analyst
- Mario Pierry, Analyst
- Thiago Batista, Analyst
- Tito Labarta, Analyst
- Yuri Fernandes, Analyst

Presentation

Operator

Good afternoon, ladies and gentlemen, and thank you for waiting. We would like to welcome everyone to Bradesco's Fourth Quarter 2021 Earnings Conference Call. This call is being broadcasted simultaneously through the Internet in the Investor Relations website, bradescori.com.br/en. In that address, you can also find the presentation available for download.

We affirm that all participants will be in a listen-only mode during the company's presentation. After the presentation there will be a question-and-answer session.

(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 the company. They involve risks, uncertainties and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions and other operating factors could also affect the future results of 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. Please proceed.

Carlos Firetti {BIO 2489005 <GO>}

Hi, everyone. Good afternoon, welcome for our conference call for the discussions of our fourth quarter 2021 results as well our strategy. We have today with us Banco Bradesco's Chief Executive Officer, Octavio de Lazari Jr.; Andre Rodrigues Cano, Executive Vice President and CFO; Leandro Miranda; Executive Director and IRO; Oswaldo Fernandes; Executive Director; Ivan Gontijo; Bradesco Seguros, CEO; Renato Ejnisman; Banco next CEO; and Curt Zimmermann, Bitz's Chief Executive Officer.

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

Leandro de Miranda {BIO 21476649 <GO>}

Thank you very much, Firetti. Good afternoon, everyone. I hope you are doing well, thank you for joining our fourth quarter 2021 earnings conference call.

2021 was more complex than expected, but also a year of record profit in our history BRL26.2 billion. We went through two more waves of the pandemic, which had a significant impact on the economy and our business, but the rapid rollout of vaccinations as the mid of the year allowed business to resume activities. Unfortunately high inflation a global phenomenon along with some local flavor led to a dramatic rise in interest rates. The tightening of monetary policy was a factor in 2021 and it will affect the recovery of the economy in 2022.

For 2022, we anticipate a continued return to normalcy despite the current increase in COVID case as a result of the Omicron variant, which we believe to be temporary. However, '22 looks to be a year with modest growth due to the impacts of the monetary policy and fiscal uncertainties which will certainly have an impact on our business. In this landscape, we see consistent credit growth over the year as the quality of origination remains quite good and there is demand from customers. We'll talk more specifically about guidance later on.

Regarding our earnings we saw solid performance in 2021. Net income came up to BRL26.2 billion the highest annual recurring net income in our history. We performed well in client NII which grew 6.5% and in fees, which grew 4.1%, also an all-time record. The Insurance segment was a solid contributor to the results even after absorbing around BRL5 billion in claims related to the pandemic. The loan portfolio grew by 18.3% and reached BRL812.7 billion.

Credit origination through digital channels came up to BRL88 billion and now represents about 30% of the total. Cumulative ROE jump into 18.1% on the way to recover to a higher recurring level and the efficiency ratio also improved it coming down to 46%. Finally, we would like to point out the distribution of BRL9.2 billion in the form of interest on equity and dividends, resulting in a payout, higher than 44%.

Turning now to Slide 4, we will address to the issue of sustainability of Bradesco. Over the last few years, we have seen growing concerns of climate change and its risk and opportunities for companies and economies. This is why this issue is one of the pillars of our sustainability strategy, ESG. In '21, we were the first Brazilian bank to sign on net zero. It's a major commitment because it involves working even closer with our clients during the transition to a low-carbon economy. Once again, placing the client at the center of our strategies.

As of now, we are ready carbon-neutral in terms of the emissions generated by our proprietary operations including indirectly Scope 3 emissions which for instance, involves our employees commuting between their homes and workplace. We were the first Brazilian bank to join the PCAF the Partnership for Carbon Accounting Financials in '20 aimed at measuring and publishing our financial emissions.

From this point on our challenge will be even more significant because it's no longer related to our operations, but about engaging and helping our customer during this transition. So they will be able to better manage their risks and take advantage of the opportunity that will come out of this new economy and becoming more resilient to climate change.

Now we go to Slide 5, we also announced in '21 the growth targeting BRL250 billion by '25 to sectors and assets through the positive social environment impact as part of the commitments and strategies related to the transition to the new economy. We have already channeled BRL83.6 billion, representing one-third of the target as a result of the growing demand for credit in these sectors and the greater momentum in the investment scenario.

This solid performance may lead us to revise this goal. Further evidence of our commitment to financing sustainable business and serving as a major of positive changes aside with -- was the issuance of our first formed linkage to social environment criteria in the international debt capital markets. It was announced in January, which amounted to $500 million.

And as a result of our continuous development of the ESG aspect of our business we have been recognized by major indexes and specialized agents and have received a rating above the market average. We would like to point out that the fourth year in a row we are among the 10th of banks in the world in the Dow Jones Sustainability Index. We have also been part of the B3 since its creation in 2005. And now we are part of the first IGPTW portfolio, which is the new index for the B3 ESG family in partnership with Great Place to Work.

Turning now to Slide 6, respect and care for our people have always been an integral part of Bradesco culture. And when we speak about our people, we are referring not to only 9,000 employees, but to 9,000 families. We believe in the strength of diversity reinforcing the company's culture with interaction between employees. We employ a diverse staff with solid attitudes and actions related to the inclusion and have focused on our efforts to continually evolve through training and development. We adopted measures during the pandemic, to ensure that the customer service continues on along with the safety of our employees through unconditional support, including a 24/7 team of health professionals.

The return to on-site activities has taken place gradually in the administrative areas with a bit more caution in place this time and implement a hybrid model in which we are going to combine the best of both worlds thereby benefiting both for the teams in the quality of life for our teams' environmental matters.

Turning now to Slide 7, with technology advancing quickly the client has increasingly become the main player of their own choices, which is at the center of our decisions. Clients are more digital and demanding each day, they are engaged intensively applying for new technology to their daily routines.

Our policy is one of the alignment with what drives the clients and we are continuing devoted to the search for new solutions to make our clients life more uncomplicated. Bradesco's experience uses their intelligence to build customized solutions improving financial, non-financial products and services, a point through customer expectations.

On Slide 8, we outlined some of the innovations in client experience at the bank which are quickly deployed and systems that run into the cloud. We have implemented the financial manager's tool which facilitates management of Bradesco accounts and soon those of other institutions plus promoting personalizing these sites. Everything in a single place within our existing app.

The Bradesco app offers access to exclusive cash backs. In addition to non-financial products such as our partnership with Disney, for sending money abroad just got easier with the me-to-me currency exchange from Bradesco to BAC Florida, an instant transfer from one account to the another account.

And through Bradesco and U.S. our digital investment platform in Miami clients now have a simplified in 100% digital journey to invest in international assets through portfolios managed by BlackRock and Bradesco. Therefore those portfolios are based on their investment profile and objectives.

Turning now to Slide 9, the digital experience within Bradesco is constantly evolving and it ensures that the client has autonomy in their financial management. Proof can be found in the total amount of transactions, 98% of carryout through our digital channels, 91% of which are concentrated in mobile and Internet.

We posted a search of 5.3 million digital account holders compared to 2019 and the number of accounts opened through the app grew by 5x. We also saw a significant boost in the number of products both individuals and companies have applied for.

Turning now to Slide 10, the volume of product that we originated through our digital channels was BRL88 billion in 2021, a 36% growth compared to '20. This amount now represents 30% of all credit produced by Bradesco. It should be point out that this number is greater than the sum of the credit portfolios of all Fintechs operating Brazil. We even made the progress in digital renegotiation, which was 43% higher than in 2020. These results illustrate the quick progress of our cloud systems such as BRAIN and CRM in the evolution of our business platforms that our centers on the clients.

Moving on to Slide 11, we present the growth in the numbers of four of our cards. We revised the product portfolio and introduce it cards that complement our offer allowing clients to choose the cards that best suits their usage profile. The sale of cards through digital channels grew 5.8 times this year and now represents 20% of total sales.

Slide 12 outlines our performance in the vehicle financing. We took the lead origination with the production that was 25% higher than a year ago. This performance is due to our continued focus on the needs of customers and partner channels, which has made the journey to contract our products a physical experience where it's possible to finance along with the vehicle, accessories IPCA and other expenses, plus the ability to take out insurance coverage.

Broadening out this block of solutions focused on client experience, I turn to Slide 13 to address BIA. BIA which also runs in the cloud has allowed us to become the pioneer bank in artificial intelligence. It's a solution that has already totaled 1.2 billion clients transactions. Multiplatform BIA's found in branches fone facil or WhatsApp, one of the primary communication channels in the markets responsible for over 60% of BIA's mobile interactions. And the most intriguing thing is that BIA is also a pioneer in link to artificial intelligence with voice commands. It's not only listen to the customer, but also performs requested actions such as sharing a Pix received.

On Slide 14, we feature some of the progress we have made in our digital initiatives that also make a great use of the cloud Next, Agora and BITZ. We have already received the regulatory approval and as soon as we conclude the acquisition of the issue, we will post its numbers as well.

Agora, which has increased in its product offering double its net funding in 2021 and settled at 743,000 customers, a growth of 35.7% or over 12 months. Next which has a target of doubling its client base in 2021 has even more it reached close to 10 million clients at the end of last year with the 169% increase. These greater scale has led to significant strides in the total volume transacted and in the revenue base.

The November release of our marketplace, the nextShop is another step in the move towards an increasingly better and more complete platform in digital experience. Bitz, the digital wallet we introduced in September 2020 double its amount of accumulated accounts and downloads in the last quarter. There are now more than 4.2 million accounts and 6.2 million downloads there. Just looking at these digital initiatives there are already nearly 15 million customers. After having discussed in some of our macro strategies, we now turn to our financial performance.

Turning now to Slide 16, operating income increased 6.3% year-on-year and the net income was BRL6.6 billion. The insurance business grew 54.6% in relation to last year with a solid evolution of premiums and financial results, client NII grew 11.8% helped along by the growth of the portfolio as a whole.

The next slides we show details of our lines. Before we move on, it's important to point out the comparison of operation in 2021 with 2019. Before the pandemic began we saw revenue growth despite partial restrictions of mobility during the past year. And we managed to reduce expenses in an environment of rising inflation, which resulted in a 9.6% increase in our operating income.

Now we move to Slide 17, in this slide we can see the data on the reconciliation of managerial and accounting profits. By looking at the annual consolidated column you can see that the adjustments are very similar to those of the previous year except for the reclassification and realization of financial instruments made in this quarter with an extraordinary impact of BRL1.8 billion on the results.

This movement realignment as part of the securities portfolio to the new reality of interest rates that we see in the markets. We also underline the constitution of a restructuring provision of BRL441 million net of taxes, as we continue to make adjustments to our physical presence with the conversion of branches into business units in 2022.

Moving on to Slide 18, we will show the growth of our loan portfolio. In December the total volume exceeded BRL812 billion a growth of 5.1% in the quarter and 18.3% in the year above the ceiling of our guidance that we had revise it upwards in the last quarter. There was significant growth in all groups and types, highlighted by the expansion of operations with SMEs, which represents an increase of 24.5% for the year, as well as individuals with an increase of 23.2%.

The performance reflects the gradual recovery of business and the relaxation of restrictions related to the pandemic. As we point out at the beginning cards and the vehicles were lines that saw a relevant growth of 13.5% and 11.7% respectively. The real estate financing portfolio grew 23.4% year-on-year and the volume of operations with individuals grew 31.2%.

We broke a record in 2021 origination was BRL37 billion, 50.6% higher than in 2020 in the number of finance units exceeded 125,000 homes, 48% more than in the previous year. The expectations for continued growth in real estate loans in 2022, but at a slightly lower rates in 2021 due to the higher interest rates that we see nowadays.

In rural loans, we posted a significant growth of 40.6% reflecting our historical support for agribusiness. We are the leader among private banks in this segment and we operate through 14 regional platforms, which include agriculture engineers. We distribute credits, products and services that support the modernization of the sector.

We are making massive investments this year to deliver a fully digital ecosystem to our clients complementing our performance more broadly in a pioneering partnership with one of the world's largest player in the technology sector. The 2022 credit outlook is for double-digit growth with an acceleration of the lines with higher spreads, which will all lead to an improvement in client NII.

Now we go to Slide 19 to discuss our provisions. Credit provisions expenses totaled BRL15 billion this year, 41.6% lower than in 2020 when there was an impact from the strong increase in provisions than anticipated the effects of the pandemic on delinquency. The expressive growth in higher spread loan operations in the fourth quarter, such as credit cards, personal loans and the working capital had been slightly impact on the amount of provision in the quarter in on our cost of risk, but this is a good collateral because it comes from the portfolio growth even so, the indicator remained below historical levels.

Our NPL coverage ratio over 90 days remained at a very comfortable level and above the pre-COVID level at 261% and when we included the entire renegotiating portfolio 111%.The coverage indicator over 90 days, excluding operations a 100% provision remained stable. Our coverage is the highest in the markets. Provisions should continue to adjust over the next few quarters following a natural trend in the process of normalizing credit conditions.

Turning now to Slide 20, we can see that our renegotiated portfolio totaled BRL28.6 billion and it's important to point out that the volumes continue to decline in comparison with the total portfolio. This indicator reached 4.7% in the quarter already approaching the pre-pandemic level. The provision volume is 62.2% and represents 3.5x the solid delinquency, which continues to return to normal and is approaching pre-pandemic levels.

Now turning to Slide 21, default rates remain very under control and at levels that are lower than in the pre-pandemic periods due to a solid portfolio management, evolution of credit models and client-centric approach in the renegotiation journeys. In line with our expectations, total delinquency over 90 days rose 20 bps. Indexes for individuals and SMEs were most impacted absorbing the effects of the renegotiated portfolio referred to the previous slides.

Gross credit provision expenses were BRL5.1 billion and represented 88% of our NPL creation pretty much because the operations of the renegotiated portfolio that became delinquent had a higher provision that requires less of a supplement.

Finally, I would like to point out that in this quarter as in previous quarters, we sold both non-performing and active portfolios. Within the rationale of our credit management process, we use this mechanism whenever we believe there is more value creation of the sale then using our own teams to collect overdue loans.

Turning now to Slide 22, the total NII present a strong growth in the quarter with an increase of 80%, year-to-date the evolution was 1.3%. Client NII for the year top at 6.5% surpassing the upper levels of the guidance as a result of the higher average volume of operations, better spreads and the product mix. The re-composition of spreads as of the third quarter 2021 was of great importance to offset part of the negative variation in the first half of 2021 and we continue to be significant in the coming periods. The reduction in market NII, which posted a record result in 2020, is due to the impact of the higher CDI on our ALM positions partially offset by the higher results from our own working capital.

Turning now to Slide 23, we can see that fees income surpassed the BRL8.8 billion mark in the quarter, the all-time highest result we have ever had. The amount was BRL34 billion for the year, a growth of 4.1% above the center of the guidance. The volume transacted on our credit card this quarter once again performed very well exceeding BRL66 billion, surpassing even the pre-pandemic periods.

This growth has permitted this line to develop by about 10% in both the quarterly and annual comparison. The year-to-date 0.7% increase in the checking account revenue line is related to the growth of our accounts holder client by a base of BRL1.8 million over 12 months. On top of the higher business volume of correspondent banking given the overall resumption of commerce, this more than compensated by the revenue losses due to the Pix.

On the right side of the slide, we can see the total number of clients, which reached BRL74.1 million as well as the number of Bradesco account holders, which reached BRL32.6 million, not including Next and BITZ in this number of checking accounts. The annual growth of 3.9% in the income from credit operation is related to the expansion of the portfolio. The consortium management custody and brokerage services and financial advisory services contributed significantly to the annual growth in fees despite posting a decline in the quarter due to the lower number of working days.

We are going next to Slide 24 to discuss our operating expenses. Even in environment of high inflation, we made IPCA of 10.1% and IGPM of 17.8% along with the collective bargaining agreements of 11%, total operating expenses increased by only 1.1%. A clear sign of efficient cost management. The 6% increase in personnel expenses for the year is due to the higher provision for profit sharing and collective bargaining agreement starting September.

In the area of administrative expenses, the increased use of digital channels and the optimization of our physical presence and process offset the inflationary pressure that we felt, and also the higher costs associated with technology investments and customer acquisition for Next and BITZ. The increase for the year was 1.3%, the variance in other income and expenses is primarily explained by the change in the supplementary provision for insurance. We will see a reduction in the number of branches and an increase in the number of business units in 2022.

Now we move to Slide 25, where we present data on our insurance business. Net income posted an annual growth of 4% and it has been around 8% if not for the increase in social contribution. We have a growth of approximately 11% in revenue. The solid performance of surge in all business areas was followed by an increase in the number of life insurance, vehicles and residences.

As the Insurance Group was able to take advantage of opportunities in the various distribution channels and business partners particularly with performance in digital channels. Income from operation saw an improved performance in the second half, and was in the mid of our guidance. This performance is related to the improvement in the claims ratio due to reduced effects of the pandemic, as well as improvements in the financial results for the periods.

The volume of COVID-related claims in the fourth quarter of '21 was the lowest since the beginning of the pandemic. Despite the more recent increase in demand due to the new Omicron variant, we did not see the same severity as in the previous periods. We provide our policyholders with an antigen tests at Meu Doutor Novamed clinics to support the diagnosis of the disease.

It should be noted that in 2021 we had more than BRL5 billion in claims paid related to the pandemic. These volumes emphasize the strength of our balance sheet and the importance of insurance mitigating the effects of losses on families.

We now move on Slide 26, sour Tier s1 capital finished the year at 13.7% remaining rather robust and well above regulatory limits even with the significant annual increase in risk-weighted assets given the strong growth of the loan portfolio, mark to market of security and payment of interest on equity and dividends. Indicators for our liquidity also remain at rather comfortable levels.

Next is Slide 27, the final one today before we move on to your questions. As we mentioned at the beginning of the presentation uncertainties will remain in 2022. We will continue to believe that there is room for growth, chiefly due to our business model and technological innovations in recent years.

The loan portfolio grew 18.2% in 2021 above the top of the guidance. We see growth in this line for '22 between 10% and 14%. In client NII growth was 6.5% in '21 also above our previous estimates. For '22, we expect to grow this line between 8% and 12%. In fees, we grew 4.1% in '21, our expectations for an expansion of 2% to 6% in this line for '22.

Total expenses grew by only 1.1% despite the inflation with a piece IPCA of 10.1%, IGPM of 17.8%. Guidance for 2022 ranges from 3% to 7% including our optimization initiatives to mitigate the effects of inflationary pressures and also to preserve space for important investments in technology and growth of the customer base. We saw 5.5% tightening in income for insurance in 2021 due to the impacts of claims from COVID. Our '22 forecast calls for a growth of 18% to 23% in this line with the growth in premiums and a reduction in clients.

We believe that the worst phase of the pandemic is behind us. Expanded credit provisions ended '21 at BRL15 billion still at very low levels. For '22, we expect a range of BRL15 billion to BRL19 billion in this line, mainly due to the growth of the loan portfolio. We expect market NII to post a further reduction in '22.

Thank you very much for your time. And we are now able to answer your questions.

Questions And Answers

Operator

Thank you. (Operator Instructions) Our first question comes from Jorge Kuri, Morgan Stanley.

Q - Jorge Kuri {BIO 3937764 <GO>}

Hi, everyone. Good morning, thanks for the presentation. I wanted to ask two questions if I may, the first one is on your credit card book, which grew 30% year-on-year, which is evidently very impressive. I wanted to understand what's driving this is what percentage is new clients, where are those clients coming from, what type of segments you're winning market share on, is it higher credit limits to your existing clients. And what do you think that looks like over the next 12 months in terms of growth rate for that portfolio.

And then the second question is on asset quality. Evidently I'm guessing you're seeing your stock down, it's down 9% today, my guess is that it's on delinquency risks. I think the market was happy to see NPLs go up and so, what do you think the market is missing, you seem to be very comfortable if not even optimistic on delinquency. What do you think we, we're not seeing that you are, can you maybe help us understand delinquency by product, what's your delinquency on your credit card book for example, what is the delinquency on your SME book, I think as you talk about mix shift driving these increase in NPLs and provisions, I think it's very useful to provide the evidence of that. And my guess is that NPLs by product will be quite useful? Thank you.

A - Leandro de Miranda {BIO 21476649 <GO>}

Jorge this is Leandro speaking. Thank you so much for your question. Well, basically credit card book has been increased by 30% year-on-year. And the reason for that is the reopening of the economy, primarily. Besides that, we are also improving and increasing our base of clients. Bradesco itself has reached the number of 31.4 million clients checking accounts with us those clients also benefit from credit cards. Also when you consider Next, you see this benefit and as the pandemic resumes, we believe that the retail shall also increase the issuance of credit cards.

Besides that, we also have Bradesco Previdencia that's how our network that expense our physical presence even more like on a asset like basis. Regarding to quality of the NPL, it's important to point out that it has been still lower our historical levels. And therefore, we feel very portable with the level of delinquency that we have seen pretty much we have increased NPL by 20 bps so we do not see clients requesting any sort of additional renegotiating renegotiations that significantly impact our books. So we guess the quality is very good. We have made all the provisions that we needed in 2021 especially. And therefore from now one, it's much more like the growth of the portfolio itself than any sort of reality of the quality of the portfolio.

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

Hi Jorge let me complement Leandro in this two questions. Regarding credit card, I think we had a pretty meaningful improvement in some of our platforms in credit card we have increased a lot. Our digital origination of credit card with all new products and also we benefit from a big improvements in the last improvement in the last few years in our process of credit analysis -- analytics, usage of data, that allowed us to have a even better underwriting.

We have been working a lot in the active and off cards in our base of clients trying to deepening the penetration of cards in our base of own checking account holders. And also we have an operation with retailers that's was pretty much affected by the pandemic and the reopening of the economy has also benefited this operation.

That regarding credit quality, we have a very comfortable with the evolution of our credit quality NPL is doing very well sustain it by a very good underwriting by all the changes in the profile of loans with strong growth in collateralized loans during the, last two years payroll loans mortgage. And this is behind is very good performance.

In terms of cost of risk, we think we have a pretty realistic assumption in guidance for cost of risk, I remember last year when we provided our guidance I think the market also thought it was kind of optimistic and actually we overperformed -- we overdelivered on that. We think we are right to go through the same path at this time. Regarding NPLs by products, as you know we don't provide and no one in the market among the peers provide. So we will at this current time, keep it that way.

Q - Jorge Kuri {BIO 3937764 <GO>}

Thanks. Leandro much appreciate it.

A - Leandro de Miranda {BIO 21476649 <GO>}

Thank you.

Operator

Our next question comes from Jason Mollin, Scotia Bank. Please proceed.

Q - Jason Mollin {BIO 1888181 <GO>}

Hello, everyone. Thanks for the opportunity to ask questions. My first question is on the outlook for Next and perhaps some additional operating metrics. You showed us some 10 -- over 10 million clients now. I'm not sure if you're able to share some more details on acquisition cost for clients or revenue per clients. And if you have a view on whether it makes sense, you've talked about potentially doing this, in the past you made some comments that you will see about listing potentially listing next in the public markets.

And my second question is on the nature of the non-recurring items that you reported in the quarter. Specifically on the reclassification of the securities from available for sale to trading, what were the implication -- what was the decision making process there? Were there tax implications and now, are you planning to sell those, or now you have the ability, I guess to sell them and also on the non-recurring, if you can give us an update on potential future impairments. We saw some impairment charges and goodwill write-offs, et cetera. If you can give us an update on what you think we could see going forward there? Thank you very much.

A - Leandro de Miranda {BIO 21476649 <GO>}

Jason, thank you so much for your questions, I'm going to answer your second one and then I'll pass the word to Renato Ejnisman that is next CEO that is also with us on the line, okay. Well, basically we perceived some strong movements in interest rates, we realized that there were -- there would be an opportunity for handling a larger portfolio with current rates, and we sold the portion with lower interest rates, and we acquired the portion with the long ones. It will bring benefit to '22 and also the coming years. And it will be neutral regarding to tax implications on this matter. Renato, please go ahead.

A - Renato Ejnisman {BIO 17266174 <GO>}

Thank you, Leandro, and thank you, Jason, for the question. I mean with regards to analytics [ph], I mean, it's true. I mean we don't yet divulge in a lot of the figures, which is (technical difficulty)

A - Leandro de Miranda {BIO 21476649 <GO>}

Renato are you there? Renato?

Operator

We have the lost connection. Please hold.

A - Leandro de Miranda {BIO 21476649 <GO>}

Jason, are you there?

Q - Jason Mollin {BIO 1888181 <GO>}

I'm here.

A - Leandro de Miranda {BIO 21476649 <GO>}

Okay. Unfortunately, we missed Renato. He shall be back shortly with us. So we're going to move to the next question, and then we get back to yours, okay?

Q - Jason Mollin {BIO 1888181 <GO>}

Sounds good. Thank you very much.

A - Leandro de Miranda {BIO 21476649 <GO>}

Thank you.

Operator

Thank you. Our next question comes from Tito Labarta, Goldman Sachs.

Q - Tito Labarta {BIO 20837559 <GO>}

Hi. Good morning. Good afternoon. Thank you for the call, taking my questions. Couple of questions also. I guess a follow-up on your loan growth guidance, right, 10% to 14%. I mean the system today is going around 15%, but you have the economy is decelerating. GDP growth could be 0% to 1%. How realistic or how comfortable do you feel on being able to achieve that growth? What kind of growth would you expect for the system? In other words, do you expect that you'll be able to gain some market share? It looks like you gained a little bit of market share on the overall loan portfolio in '21. Do you expect that trend to continue?

And then second question in terms of NII, growing a bit below that loan portfolio. Could you -- is that because of just that your liabilities kind of repricing from the higher interest rate, how long would it take to reprice your loan portfolio and if you can give when do you think you could maybe see some margin expansion from the higher rate, if you can? Thank you.

A - Leandro de Miranda {BIO 21476649 <GO>}

Thank you, Tito. I'm going to start here, and then Firetti will come up with a complement, okay? Basically, economies in Brazil, they see the credit portfolio growing by 7.5% this year. So it's way high from the GDP, because there is a huge room for needs. And therefore, it won't be possible to grow by 18% as we did last year. But when you see the range that we are indicating, we are pretty much comfortable with that. We have always been growing ahead of the market, and we feel very confident that we shall be in the middle or even the upper part of our guidance.

Regard to NII, basically, we are changing here in terms of market for higher coupons. So we believe there is very good gains ahead of us. It should be neutral by the end of this operation. And regarding to clients, we have seen that clients are keeping up the spreads. We have been able to grow our margin. By year-end, it was around 12% when you compare year-on-year. And besides that, you have to conceive that we have a bank book.

So basically, the margin with clients is going to grow on a step-by-step basis while we just see the outstanding balance of our portfolio. That's the reason why you see some sort of encompass between the lines.

Q - Tito Labarta {BIO 20837559 <GO>}

All right. Thanks for that, Leandro. And maybe one follow-up on the loan growth again. I mean you mentioned more in terms of the asset quality that you feel pretty comfortable with current levels. But I mean, there was some deterioration. How much do you expect the asset quality to deteriorate a lot, NPLs to get back to pre-COVID levels? Do you think you can kind of stay below that? Just with that type of growth in this economy, you don't worry that there could be further deterioration in asset quality? Just trying to think how much can NPLs increase from here and does that impact your loan growth at all.

A - Leandro de Miranda {BIO 21476649 <GO>}

Tito, that's a very good question. We ourselves believe that we should be getting back to '19 pre-pandemic levels. But the quality of the harvests have been so good so far that we have been driven to believe that we shall be even below our historical levels. So we see a normal deterioration, but we shall believe that all the provisions that we have made heavily in 2020 and 2021 shall be more than enough to keep us on a very comfort level.

Besides that, even if the whole renegotiated portfolio went into delinquent, we would still have 111%. The whole market would be below 100%. So 206.2% [ph] in the weightings today and the worst, worst case scenario, in a chaos scenario, we would have 111%. So we feel very cool with the level of protection that we have today.

Q - Tito Labarta {BIO 20837559 <GO>}

Great. Thanks for that. And then one final follow-up on that. That would imply that you do expect to use some of that excess coverage, so the coverage ratio could maybe fall a bit this year. What's the normalized level? I know you don't always look at it this way, but just to kind of how that would evolve.

A - Leandro de Miranda {BIO 21476649 <GO>}

Indeed, it shall even increase. So we do not see a deterioration of our coverage ratio.

Q - Tito Labarta {BIO 20837559 <GO>}

Okay. Perfect. Thank you.

A - Leandro de Miranda {BIO 21476649 <GO>}

Jason, I guess, Renato is back with us. So I'm going to kind of ask him to keep on answering your point. Renato, can you hear us?

A - Renato Ejnisman {BIO 17266174 <GO>}

Thank you, Jason. Yes. Yes. I hope you can hear me. I apologize. I don't know what happened, and I kept talking, so I don't know exactly where I got interrupted. So what I'll do is just kind of start again, but I'll start a bit quick and summarize my answer.

But essentially, what I was saying was reached the 10 million market level, which was market show that we are able to grow at a fast rate and have continued to do that. We did that while increasing unit metrics in a way that we are very comfortable with in terms of increasing revenues. And the revenue line that is most important for our business model is credit, and we managed to do that increasing credit, and we have improved tremendously our credit policies.

We have done -- we're in the fourth review of our credit policy using a lot of analytics. We have hundreds of variables that we take into account in our credit models, much in line with what other digital initiatives like ourselves have been doing. And as a result, we managed to increase.

When you look at on a year-over-year basis, we increased 84% our credit portfolio, but this mostly happened in the course of the second semester of last year when we started kind of around July kicking in the new credit policies, the new credit models that have been improving over the last few months. And we believe that this will continue to accelerate and improve our revenue line.

So with regards to the customer acquisition cost that you also asked, Jason, again, I mean we don't talk about ARPU or CAC, most likely, most of our competitors. But what I can tell you is that we managed to increase the number of clients and accelerate their customer acquisition rate but actually reducing customer acquisition costs. Obviously, there is some seasonality within that. So towards the end of the year, it costs more because there are more people fighting for air time in the different medias, especially because of Black Friday and Christmas. But kind of if we take that out of this effect because we have changed our marketing strategy, because we have -- like we have more awareness, we have adopted some marketing campaigns, we have also introduced new models of acquisition like the Member Get Member program. And I think essentially, our awareness has increased, so we didn't have to push much in the end of the funnel at the performance, and we managed to reduce the customer acquisition cost.

So again, when we look at the business model, I think things fall into place, and we are happy with the way we are growing our business and also with the way that the macros are. Thank you for the question, Jason.

Q - Jason Mollin {BIO 1888181 <GO>}

Thank you.

Operator

Our next question comes from Thiago Batista, UBS.

Q - Thiago Batista {BIO 15398695 <GO>}

Hi, guys. Thanks for the opportunity. I have basically two questions, and both of them on the guidance. The first one, your guidance clearly is very complete, but there is two main lines that are missing, the market NII and the taxes. Can you comment what are the main trends that we are seeing for market NII and tax rate?

The second question is still on the guidance is about the NPL ratio that you guys are considering when you look for the midpoint of the guidance -- of the guidance provision, sorry.

A - Leandro de Miranda {BIO 21476649 <GO>}

Thiago, regarding your -- the first part of your question, in terms of market NII, you can consider that we're going to have reduction in '22 compared to 21%. Tax rate, you can use a range between 32%, 34%.

Regarding the NPL considered in our guidance, we consider that NPL will -- the total NPL will rise a little more in 2022, getting probably closer to pre-pandemic levels but probably still a little below it but already close.

Q - Thiago Batista {BIO 15398695 <GO>}

Very clear. Thanks.

Operator

Our next question comes from Mario Pierry, Bank of America.

Q - Mario Pierry {BIO 1505554 <GO>}

Hi, guys. Good afternoon. Thanks for taking my questions. Let me ask you two questions as well. The first one is on your client NII outlook. I was wondering how conservative are you being here? Because when I look at your client NII in the fourth quarter and I annualize it, I already get 7% growth in 2022, while your guidance is only 8% to 12% growth. So either you're having problems like repricing your loan books, maybe you can discuss that. Are you seeing a more competitive environment? Or are you concerned about raising spreads because the consumer is not in good shape in Brazil, given the high inflation weak economy. So that's the first question.

It just seems too conservative to grow NII on the 8% to 12%, especially when you were expecting loan growth at 10% to 14%, and maybe it has to do with the mix of your loan book. So can you also discuss on your loan book forecast, what are you expecting for SMEs, consumers and large corporates. That's the first question.

The second question is related to your guidance for provisions. At the high end of your guidance, you're expecting growth of almost 30% in provisions. So I was wondering what could happen for you to reach the high end of your guidance and why you think that why you provide a guidance where provisions are rising 30%. Thank you.

A - Leandro de Miranda {BIO 21476649 <GO>}

Mario, let me start. Regarding the NII for clients' outlook, I think -- thank you for the question. I think we have been getting a lot of inquiries on that. The fact that the -- in our guidance, the NII from clients doesn't grow in line or faster than the loan growth relates to the fact that despite the spreads in the new loans originated being higher than what we have seen, for instance, in the first half of 2021 when probably we had a bottom in spreads, it takes time to have the full repricing of the loan book. Basically, these discrepant between the fact that in your view, you see in the rates, rates are up, and the fact that our NII from client doesn't reflect that totally is related to the pace of repricing.

Our loan book has a duration of one year and half, two years. So it takes time. Also, despite the fact that spreads are higher than the bottom they are still lower than what they were in the beginning of 2020. And you have operations maturing and getting out of our loan book. So that's the effect that is behind this kind of lag in the evolution of the client NII.

I remind you, we had an 18% growth in the loan book in 2021, and our NII from clients grew 6.5%. Now we have -- we are pointing to 12%, and NII from clients grow 10%. So this this repricing and this benefit it's coming, but the full benefit of higher spreads, higher interest rates on the funding side takes a while to happen. So that's the key the key message there.

In terms of mix, we're going to have lower growth in large companies and kind of a similar growth in individuals and SMEs leading. So individuals and SME is growing higher than the 12%. So sorry, can you remind me the question on provisions?

Q - Mario Pierry {BIO 1505554 <GO>}

Yes, just before we get to the question on provisions then, so when you talk about loan growth being driven by individuals and SMEs, right? This is a better loan mix that we're talking about in 2022 than 2021. So you should have some benefit on your margins from that. And if you can discuss, like you said, right, the spread is already higher than in the first half of 2021, do you see room for you to continue to increase spreads? Do you think that the consumers and corporates in Brazil would be able to absorb the higher spreads?

A - Leandro de Miranda {BIO 21476649 <GO>}

I think basically, spreads were actually in a very low level in the first half of 2021. I think we are going through some composition of spreads in this environment of higher interest rates. I think the impact of higher spreads in the origination leads to this lower loan growth. We are pointing in 2022 comparing to 2021.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. And then the question on provisions was, when I look at your guidance range of BRL15 billion to BRL19 billion, the BRL19 billion implies growth of almost 30% in provisions relative to 2021. So I was wondering under what kind of scenario you think you would be close to this high end of your guidance?

A - Carlos Firetti {BIO 2489005 <GO>}

Yes. Our guidance, as it always happens, we focus on the middle of the range. That is what connects with our budget, our estimates. So the range complex contemplate unforeseen scenarios where actually things go worse than our expectations. Basically, that's what is contemplated in the range. But as you know, the base case is BRL17 billion.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. But that's what I was trying to get to, then, the 19 billion, right, things don't go as expected, what are we talking about here? Is the economy contracting 1%, 2%? What are the macro assumptions behind that?

A - Carlos Firetti {BIO 2489005 <GO>}

That may be related to growth higher than expected, economy lower than expected. So again, the range contemplates the -- some sort of standard deviation on the base case scenario, not necessarily related to a well-defined scenario.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. That's helpful. Just final one then. What is your base case scenario for interest rates, inflation and GDP growth?

A - Carlos Firetti {BIO 2489005 <GO>}

Our scenario for GDP growth is 0.5%. Growth for inflation is 5.4%, and we have SELIC at the end of '22 at 11.75%.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. Very helpful. Thank you very much.

Operator

Our next question comes from Geoffrey Elliott, Autonomous.

Q - Geoffrey Elliott {BIO 15944940 <GO>}

Hello, everyone. Thanks for taking the question. The expense outlook, clearly, you're pointing to something that embeds some efficiency improvements. But can you talk about your expectations on the personnel cost side? You have the 11% agreement with the unions last year. Inflation is high. I'm sure you're going want chunky increases again. What sort of expectations are you embedding? Is it 11% again? Is it something a bit lower than that this time? And what are you seeing in the labor market in Brazil when you're out trying to hire people.

A - Carlos Firetti {BIO 2489005 <GO>}

Thank you, Geoff. Basically, our cost growth guidance considers all the impacts of this environment of higher inflation, the fact that we are actually investing in our operation in technology, we are investing in people. At the same time, we are running a process in which we improve our efficiency, which should incorporate or convert about 500 branches in 2022 in a smaller format.

So we continue the process of improving efficiency. We have been converting most of our operations, for instance, the formalization of sale of products, the signature of contracts in digital process on some sort of omnichannel approach where the client may be talking to a branch manager, but the confirmation of the contract, the signature actually happens online. And all this process has been helping us to reduce costs. So this 5% considers all the pressures we have coming from the increasing salaries we had last year of about 11%, considers the fact that probably we're going to have inflation plus something or at least inflation again in September that is pretty much given by the jurisprudence in terms of labor agreements we have in Brazil. So probably it will happen something kind of in the same trend this year. And with that, we -- with all these cost-cutting initiatives, we think we may have the ability of keeping costs running only close to the inflation increase.

Q - Geoffrey Elliott {BIO 15944940 <GO>}

Got it. Thank you. And if I could squeeze one more in on this credit topic. Are there any pockets at all where you've seen credit metrics worse than you would have expected maybe six months ago, given the slowdown in macro, the other pressures on consumers and businesses? Is there anything that you're seeing that is worse than you would have expected if only because the macro and GDP growth is going to be a bit lower?

A - Carlos Firetti {BIO 2489005 <GO>}

Look, I think during the pandemic, there were some different and new trends. There was, first, the trend of actually clients and people, the population accumulating cash actually saving. So getting financially in a better position, that certainly have improved the credit worthiness of potential credit card clients as a whole.

Even if the economy hasn't been doing as good as we expected, we have seen actually formal employment in Brazil improving, job creation so far improving and that kind of good for us, kind of as part of the normalization of the economy in the post-pandemic. On top of that, there were all the improvements we had in terms of credit modeling, usage of data, access to different kinds of information, knowing structural information about clients that somehow we could incorporate in our credit modeling process. So -- and we originated a lot of credit with collaterals, mortgage, payroll loans. So I think that's -- with that, we believe, as I said, that as credit, call it, should normalize with NPLs increasing, but we think it will keep relatively under control.

Q - Geoffrey Elliott {BIO 15944940 <GO>}

That's great. Thank you.

Operator

Our next question comes from Carlos Gomez, HSBC.

Q - Carlos Gomez {BIO 15024854 <GO>}

Hi. Good morning. I'm going to go back to the extraordinary charges in the quarter. The first one referred to your restructuring of about BRL440 million. Now you do that every year. So one wonders to what extent that is extraordinary or you could contribute to part of normal expenses. What is your logic to say that it is extraordinary? And should we expect more such charges in the coming years? Is it a recurring event?

The second one refers to the BRL1.9 billion reverification of securities. Again, I think we struggle to understand what the logic is to be able to bring that loss forward and to consider it extraordinary now. Because had it been in the books, you would have had it as an ordinary loss or lower income for the next two or three years. So why is it extraordinary now, but it would be ordinary, so this remains here? Thank you.

A - Leandro de Miranda {BIO 21476649 <GO>}

Hi, Carlos, Leandro speaking. Well, basically, regarding to your first question, on the restructuring provision that we have made is pretty much to seize branches and to transform branches into business units. Just to give you a flavor, we plan to seize around 700 branches and to transform, I would say, by 650 branches. So if you put their rental, labor and furniture cost is pretty much you shall have this amount.

In order to say we're going to be able to keep on doing that in the coming years, it should pretty much depend on how much our clients are going to be -- continue to increase the use of digital channels and the business units. So as long as it makes sense, we will not do it. But it's very hard to say that it's going to be every year. And therefore, that's the reason why we put an extraordinary provision for that.

And related to the market NII what happened is that we realize that the volatility in interest rates and the fast growth of the base rate allows us an opportunity to sell the existing portfolio that there was a lower coupon and to increase with another portfolio of higher coupon and a duration that our treasury guys thought that there would be a gain for us.

So by the end of the day, as you count on the years ahead, it shall be neutral or with a slightly gain for us, but we are just discussing the year. So you're going to be able to see that would be good for us. And there was no tax advantage. It's pretty much neutral.

Q - Carlos Gomez {BIO 15024854 <GO>}

Sorry, if I can insist. You -- so this really is a treasury operation. You are exchanging some bonds for others that are material. You are realizing a capital loss. I mean why is that not the trading loss part of your market income?

A - Carlos Firetti {BIO 2489005 <GO>}

Basically because it was a management decision. We think it is extraordinary in that sense. The realization of profits this year comes from kind of a decision of doing this movement.

Q - Carlos Gomez {BIO 15024854 <GO>}

Thank you so much.

Operator

Our next question comes from James Donald, Lazard Asset Management.

Q - James Donald {BIO 3117379 <GO>}

Yes. Can you guys hear me? So I have two questions, one on NII. Just let me ask it in a slightly different way. So no, I think, the Q4 was the second quarter in a row where we see positive NII contributions from both spreads and mix, if I look at the Q-on-Q, the quarter-over-quarter movement.

So my question is the following: Is there any reason why we should think that this trend, positive contribution from mix as well as spreads won't continue in 2022? Or if I put it differently, any reason why we should believe that spreads will be worse in Q4 2022 versus Q4 2021 or product mix will be worse in Q4 2022 than Q4 2021? I have another question as well.

A - Leandro de Miranda {BIO 21476649 <GO>}

Thanks for the question, James. I guess we are pretty much confident that this trend shall go on. So we shall be able to increase spreads with individuals and SMEs. And as our CEO pointed out earlier, we shall see a reduction in large corporate names because they are pretty much able to access the capital markets, and they do not need capital. They are very well liquid. So we believe that we shall go on.

Q - James Donald {BIO 3117379 <GO>}

But that doesn't tally to your guidance.

A - Leandro de Miranda {BIO 21476649 <GO>}

Yes.

Q - James Donald {BIO 3117379 <GO>}

Right. Okay. Fair enough. And second question, insurance. So in your 18% to 23% insurance income growth guidance, what's the implied claims ratio you're assuming versus 2019?

A - Carlos Firetti {BIO 2489005 <GO>}

Hi, James. So look, the guidance implies both an improvement in the financial income in '22, and a continuation of the improvements in the operation of insurance operation trends. I don't have, at this moment, specifically the implied loss ratio --

Q - James Donald {BIO 3117379 <GO>}

If you can just give me yes or no answer. So will 2023 claims ratio be better than 2022 in your assumption, of course?

A - Carlos Firetti {BIO 2489005 <GO>}

Yes. Just by the continuation of the improvements related to COVID normalization, there's a lot of improvements we can still capture, especially health insurance, but also the claims in car insurance, insurance remains high. So there's a lot of improvement.

A - Leandro de Miranda {BIO 21476649 <GO>}

This is Leandro speaking, just to give you a flavor, we pretty much understand that in terms of life and health as well as elementary branches, we shall see some reduction in leverage. Nevertheless, in terms of vehicles, we shall see higher delinquency because pretty much the life will be turning back to the old times, and we shall see more vehicles in the street, more traffic and all the delinquencies or the claims related to that.

Q - James Donald {BIO 3117379 <GO>}

Okay. Thank you very much. That's really helpful. Thank you.

A - Leandro de Miranda {BIO 21476649 <GO>}

No problem. Take care.

Operator

Our next question comes from Yuri Fernandes, JPMorgan.

Q - Yuri Fernandes

Hello, everybody. Thank you for the opportunity to asking questions. I have the first one regarding the dividend payout given, I guess, you may continue delivering those 18% to 19% ROE this year, and you expect it to grow from 10% to 14%. What is the level of payout you are expecting on this equation, right, for kind of KPR no major increase on leverage and nothing like that. So I guess your BIA loans is around 30% minimum payout. But historically, you have been paying 40% to 50%. So if you can comment a little bit on what should we expect for dividends for this year? That would be great.

And I have a follow-up regarding market income. I guess it's clear, I guess, the message from market economy decrease. But if you can quantify a little bit, like what should we expect? And again, I know you don't have a guidance. I know this is very volatile, but I do see two potential tailwinds for you here. Like the first one is potential major gains from your shareholders ex remunerated. I know it's not fully floating, but higher rates should help a little bit on your working capital. And the second one is the reclassification, right, of the securities book, so if you can provide some color kind of color, should we expect another decrease similar to the 2021. That is something called the 220 [ph]. It's something smaller than that? And just an order of magnitude would be great for us here. Thank you very much.

A - Leandro de Miranda {BIO 21476649 <GO>}

Thank you, Yuri. This is Leandro speaking. Let me start with your IOC, right? So basically, the idea here is to -- of course, it will pretty much depend on the year we have had the economic conditions, opportunities, how we use our capital, but is to continue to pay around 40% as we have done throughout the years. We believe that 35% of that will come from IOC. That's pretty much the maximum we can pay is the most efficient for our shareholders. And the difference will be through dividends. That's your first question.

Regarding to the second one, there is market NII, which we shifted the position to longer portfolio of higher coupon secured and we shall benefit from that in the three to four years ahead.

Q - Yuri Fernandes

Perfect, Leandro. Thank you very much.

A - Leandro de Miranda {BIO 21476649 <GO>}

Thank you.

Operator

Thank you. Due the duration of the call, we now finish the question-and-answer session. I would like to invite the speakers for the closing remarks.

A - Leandro de Miranda {BIO 21476649 <GO>}

Well, first of all, I would like to thank you very much for making the time to be with us not only through our presentation but questions and answer. Of course, the market is changing very quickly. We are analyzing the opportunities. And should you have additional questions or clarifications, our IR team is going to be more than happy to address any of those. Wish you a very healthy and a great day. Take care. Bye-bye.

Operator

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