Q3 2021 Earnings Call

Company Participants

- Carlos Firetti, Business Controller and Market Relations Director
- Leandro Miranda, Deputy Executive Director, Deputy Officer, Investor Relations Officer & Member of Board of Executive
- Renato Ejnisman, Chief Executive Officer, Next

Other Participants

- Carlos Gomez, Analyst
- Jason Mollin, Analyst
- Marcelo Telles, Analyst
- Mario Pierry, Analyst
- Pedro Leduc, Analyst
- Tiago Binsfeld, Analyst
- Unidentified Participant

Presentation

Operator

Good afternoon, ladies and gentlemen, and thank you for waiting. We would like to welcome everyone to Bradesco's Third 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 inform that all participants will be in a listen-only mode during the conference call. 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 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 would turn the conference over to Mr. Carlos Firetti, Business Controller and Market Relations Director. Please proceed.

Carlos Firetti {BIO 2489005 <GO>}

Hello, everyone, and welcome to our conference call for discussions of our third quarter 2021 results. We have today with us participating in the call, our CEO, Octavio de Lazari; our Executive Vice President, Andre Rodrigues Cano; our Executive Director and IRO, Leandro Miranda; our CFO, Oswaldo Fernandez; and Next, Chief Executive Officer, Renato Ejnisman; and Bitz, Chief Executive Officer, Curt Zimmermann. I turn the floor now to Miranda.

Leandro Miranda {BIO 21476649 <GO>}

Thank you very much Firetti. Good afternoon everyone, I hope you are well. Thank you for your interest in participating in our teleconference to discuss the 3Q '21 results. We present the highlights of this 3Q in which we had good news regarding the COVID pandemic. Vaccinations have advanced significantly with the strong engagement of the Brazilian population. As a result, the disease is showing a downward trend indicating that we are in the right path. Given the scenario, we initiated our return to in-person work, following very strict sanitary protocols. We have returned 100% in-person work at our branches as they play an essential role for the Brazilian population.

In our administrative areas, we have established a gradual return scheme, evolving as health conditions allow. The way we work in the post-pandemic era is different, based on a hybrid model. All of our teams are combining personal work with home office, as it offers benefits for workers, productivity and cost reduction. The improvements in infection and that have put Brazil on the path to full reopening of the economy, with an increase in economic activity. However, the scenario is still not entirely favorable. The agenda for reforms has not progressed and the inflation remains both high and persistent.

The Central Bank of Brazil raised the interest rates and have shown determination in trying to control inflation. However, this could have negative effects on the growth rate, especially in '22. With respect to our 3Q '21 operations, we saw very positive results. Our net income re-coverage reaching BRL6.8 billion, an increase of 7.1% over the previous quarter and 34.5% compared to 20%. Among the positive indicators, we highlight the (inaudible) insurance results. The good performance in fee and commission, income in the provision expenses remaining fully under control. As a result, the ROAE for the quarter reached 18.6% and the efficiency ratio also improved, reaching 45.4% in the 12-month periods. The loan portfolio grew 6.5% in the quarter and 16.4% in one year. We were already seeing a good growth rate concerning the digital clients, but this quarter, the expansion also benefitted the SME segments.

In this quarter we have about a third of our credit originated on digital channels corresponding to BRL30 billion, providing the client with autonomy and security to serve themselves. Individuals account for 50% of this total and the evolution of 58% in 12 months, with 8% of credit requests coming from the mobile channel. Finally, I can highlight the excellent recovery in income from insurance, which grew a 104% in the quarter and 2.6% in the year with the evolution of the written premiums and the consistent improvement in both, the claims ratio and the financial income. This good indicators have allowed us to conduct a positive review of some of the lines of our guidance, as you will see later on in this presentation.

Moving to Page 3, we'd like to present the main items of these results. In addition to the net income, which grew 7.1% in the quarter, we can highlight the strong performance of operating income, which grew 11.3% compared to the 2Q '21 and 15.8% compared to the 3Q of '19. The number show a stronger growth written than the pre-pandemic period. The biggest contributors to the evolution of results in the quarter came from insurance. Client NII and fee and commission income, partially offset by the reduction in the market NII and higher expenses. The main factor of which being the collective bargaining agreement of bank employees, which impacted the month of September. The annual changes are explained in part by the fact that the 3Q reflects the impacts of the pandemic more broadly.

I believe it's important to highlight the dynamics of our results. Bradesco has diversified and with good quality mix of results with banking and insurance operations that complement each other. In the last quarter, the Insurance Group absorbed the impacts of the COVID effect, reflecting the worst period of the pandemic. In this quarter, it has come back on track. It has resumed its significant contribution representing 23% of consolidated income. And when we look at the table on the right and below, we see growth in total revenues, even in this complex scenario and a reduction in total expenses, which requires discipline resulted in a robust and growing EBIT. We will go into detail about this lines in the next slides.

Slide 4 highlights the evolution of our loan portfolio. We saw a significant expansion of 6.5% in the quarter and 16.4% in the annual change. This growth reached all lines, mainly driven by SMEs with an increase of 27.8% and individuals with an increase of 24.7% in the 12-month periods. In real estate financing, we have a comprehensive position, with proprietary and partner origination channels. The origination grew 6% compared to the same quarter in '20. In '21, we have financed approximately a 100,000 units to date, an increase of 85% compared to the same period last year.

In addition, we have a more agile process for approving formalizing proposals. This is a true benchmark. Credit card growth reflects the increasing of the reopening of the economy, with more transactions and greater use of credit limits. In SMEs, growth also point to the normalization of the economy with a greater demand for working capital. In other words, we have robust growth both in the lines of low delinquencies as in the lines of greater spreads, which have resulted and will result in a better net interest income. We decided to revise our loan portfolio guidance as we have already exceeded the limit established in the previous guidance this quarter.

Let's move on to the Slide 5 to talk about our provisions. ALL expenses in the quarter totaled BRL3.4 billion, an improvement of 3.7% compared to the previous quarter. As you can see in the chart, this is the same level achieved as 3Q '19. Even considering the significant increase of more than BRL100 billion we had in the loan portfolio. ALL expenses in the quarter represented 1.7% of the portfolio. The drop reflects anticipation of credit provisioning we did after the start of the pandemic as indicated by our expected loss models. In addition structurally it reflects the growth in low-risk portfolios. The good quality of recent yields and the great evolution, we have seen credit [ph] modeling over the past few years.

We continue with very comfortable provision rate -- provisioning ratios. The NPL coverage ratio over 90 days was 297% is still well above the pre-COVID level. Considering the entire renegotiated portfolio, this ratio was a 115%, the coverage ratio should continue to fluctuate over the next few quarter as part of the process of normalizing credit conditions. The great performance that we are seeing in all ALL expenses also led us to revised guidance downwards.

Let's move on to Slide 6. The renegotiation portfolio saw another quarter of decline, a trend that should continue for the upcoming periods. Although, it has shown a small increase, the delinquencies of this portfolio is below historical levels. We can highlight the high level of provisions, which anticipate effective delinquents. The current level for provisions in this portfolio represents almost 4 times to observed delinquency.

Moving on to Slide 7, the 90-day delinquency ratio rose 10 bps within our expectations. There was growth among both individuals and SMEs, mainly coming from the renegotiated portfolio as I explained in the previous slides. But it's important to emphasize that we still have ratios well below the pre-pandemic periods. In line with our active portfolio management practice, this quarter we also sold portfolios that in our view did not compensate for the collection efforts of our teams. If this sales haven't occured, the over 90 days index could have gone up an additional 10 bps. NPL creation in the quarter was BRL5 billion. The level of provisions below NPL creation is mainly due to the anticipation of provisions after the onset of the crisis, according to the expected loss models as I mentioned earlier.

Now let's go to Slide 8, the client NII benefit from the increase in the volume of operations and the increasing spreads, interrupting a sequence of productions. This spread pickup is very important when we think about the next quarters and we believe it will continue this way. In the quarter change, the client NII grew by 4.3% and 9.8% in the annual change. We see an improvement in production spreads in our loan operations. We believe this should benefit the client NII over '22. The reduction in the market NII is due to impact of the increase in the CTI on the ALM positions, partially offset by the higher results of the overall working capital.

Let's move on to Slide 9. We saw excellent evolution in fee and commission income, which grew 4.1% in relation to the previous quarter and 7.8% in the annual change. The volume of credit cards transactions was approximately BRL60 billion this quarter, surpassing peers that preceded the pandemic and even seasonal quarters at the end of the year. This performance is responsible for the strong growth, presenting this line of revenue a growth of approximately 8.2% in the quarterly comparison and 10.1% as for year to date. Our checking account holders base increased by 1.7 million clients in 12 months, being one of the factors for the increase in the checking account lines, which showed growth of 2.7% in the annual comparison, offsetting all the revenue losses from PIX. In addition, we see consistent client growth in our related companies underscoring our ability to diversify both physical and digital revenue sources.

In asset management growth is due to the net capital increase of BRL23 billion in '21 in a more favorable mix with growth in multi markets and equity funds. In loan operations, the 8.5% growth is related to expansion of the portfolio. We decided to review the fee and commission income guidance since with the performance of this quarter we have already reached the maximum point of the guidance that we had released previously.

Now let's move on to Slide 10. Our operating expenses decreased by 2.5% in the first nine months of the year compared to the same period last year. Personal expenses increased compared to the previous year due to the higher provision for profit sharing view of the significantly higher income and also the consolidation of (inaudible) as of the fourth quarter 2020. However, the most relevant in this quarter as of September was the impact of the collective bargaining agreements with bank employees.

Administrative expenses have decreased 0.2% that's for the year-to-date despite high inflation this period. Just to give you a flavor GPM on 24.9% and IPCA of 10.2%, reflecting disciplined cost control, the evolution of the digital channels and the optimizing of our physical presence and processes. The growth in the -- in this quarter is mainly due to higher business volume and higher client acquisition expenses, especially at the max -- maximum bids. The change of the line of other income and expenses is explained mainly by the change in the non-technical insurance provision.

The high inflation scenario implies challenges for managing expenses as many of them are indexed to price changes. We will continue to act with discipline to keep costs under control seeking growth below inflation. We went '21 with the closure of a 179 branches and the transformation of 377 branches into business units, which will result in 556 branches either closed or remote finding their search and business models. Another highlight is Bradesco Expresso, which has more than 40,000 partners. Our network is scripted around variable costs, which starts operating a fully digital manner this quarter. With a number of products such as checking accounts, loans, payroll, deductible loans, credit cards and insurance, in addition to our Bitz digital wallets.

Moving now to Slide 11, we can see our insurance operations once again saw significant growth in revenues and an excellent recovery in results, even with the events related to the pandemic. We can highlight the expansion of operations. The increase in the number of policyholders in almost all of the business lines of the Insurance group. Costs related to COVID-19 were approximately BRL1.4 billion in the 3Q and BRL4.4 billion as for year-to-date. It's worth noting that COVID-19 events in the 3Q were 26% lower than the previous quarter, reflecting the impacts of vaccination and a reduction in the number of cases. The financial income was also very positive, reflecting the fact that the economic financial ratios in the period had on our financial investments.

Our net income present robust performance in line with last year, despite the 5 basis points increase in the CSF -- CSLL rates, worth not for that we would have seen a 2% expansion compared to 2020, even with all the effects of COVID-19 in '21. Like in the previous quarter, the scenario is still challenging, but based on what we have observed and what we have learned so far, we are reviewing the guidance again as we look ahead.

Now we move to Slide 12 in which we have examples of the strong growth in revenues of our insurance segments. Confirming our perception that this is an essential service and the core business for Bradesco. We have managed to capture the opportunity based on our wide offering with diversity of products and channels for each profile and moment of life of our clients.

Slide 13, as we did for the previous quarter shows the (inaudible) history of the pandemic-related hospitalizations in our healthcare operation. As you can see we are at the lowest levels of hospitalization since the beginning of the pandemic.

On Slide 4 [ph], going forward, we show the data from the previous slide, but in our monthly view. We believe this trend of improvement should continue. We now move to Slide 15 to talk about our capital ratio. Our Tier 1 ratio was 13.7% this quarter, very robust and well above the regulatory minimum. And the same applies for our liquidity coverage ratio and our net stable funding ratio. We saw a 40 bps drop compared to the previous quarter caused by the growth of loan portfolio and the mark-to-market secures.

Moving to Slide 16, we have a significant increase in the use of digital channels as you can see, which offer our clients a greater convenience. The volume of mobile financial transactions increased 92% compared to the previous quarter. The number of accounts opened in this channel also grew 84% in the same period, exceeding 1.2 million accounts. This year, we already have BRL62.5 billion in loans from digital channels. These represented 29% of the total origination from the bank. If we focus only on the performance of the individual segment digital already represents 53%. The number show the evolution diversification of our distribution channels and business sources, The Digital Bradesco. It shows a reduction dependence on the branch for transactional activities, the future of branch fundamentally depends on the evolution towards a more consultative role for our clients. They are going to grow and grow more and more into business units.

Moving on to Slide 17, we launched BIA in a pioneering manner as you know, it's the application of technology to support and assist clients depending on their questions or needs, concerning products and services. BIA gradually adds new information interaction with clients, thus becoming more robust and assertive. The total number of interactions with clients reached the remarkable mark of 396 million this year alone, which represents an increase of 29% compared to last year. On Whatsapp only we had 39 million interactions. Currently BIA is responsible for 100% of the first level support on Bradesco Fone Facil help line and it's also responsible for the first level support in the employee call center. BIA is currently able to share knowledge on more than 90 products and services. We have a dedicated BIA squads and soon it will be connected to the CRM and will start making proactive offers always, according to the needs and expectations of our clients.

Now we move to Slide 18. Following our strategy of digital transformation with the client at the center, take into consideration of pillars of people, technology and business we create Bradesco experience. A Department that integrates experience, digital channels and platforms for the creation of intuitive and customize journey of financial services leverage by partnerships. All of this using data intelligence and the voice of the clients themselves, which helps understand their behavior regarding the use of the channel and their respective transactions. This way we enable more food expenses within and between channels.

The department has very high skilled professionals in digital strategy, platforms, new design disciplines, journey analytics and already has an agile mindsets, which means that our professionals are positioned at various (inaudible) of the bank in multifunctional groups. Just to give you a flavor, indeed Bradesco experience, we already have more than 1,000 professionals involved in a whole relationship journey with our clients. In total, our squad strives already add upto more than 3,000 professionals. Just to give an example, in addition to acquiring some start-ups like (inaudible and investments of our private equity funds, we have also created and developed our whole digital environment.

Moving on to Slide 19. AGORA reached 706,000 clients and increased by 7% in net funding compared to the previous year. The small drop in volume under custody in the quarter reflects the natural mark to market due to the increase in volatility in the markets that we saw in the quarter. Next reached an increased -- an impressive 7.7 million clients base above the 7 million target for this year and the new target is 10 million clients by year-end. This represents a 131% growth in the annual comparison. Next is a comprehensive bank and it's mission is to provide clients with innovative solutions and it's increasingly a platform for products and services and now also the marketplace with the launch in November.

Bitz, the digital wallet we launched at the end of last year has reached also a very remarkable 2.1 million accounts and this week it's surpassed 4 million downloads. It has become the entry level solution for people entering the banking markets and thus plays an important role in client bank. It counts with an extensive network of correspondent banks, Bradesco Expresso with more than 48,000 services points. Bitz and Next are totally separate from Bradesco and they have full autonomy in their decision-making process.

Now on Slide 20 we move to Digio. In this quarter as you know, we made the purchase offer to obtain a 100% of the Digio's shares and we are awaiting regulatory approval for that. Digio was created as a credit card operation and has since expanded to become a bank that offer accounts, personal loans and cashback solutions. It has over 2 million cards and a loan portfolio of over BRL2.5 billion. Digio complements our portfolio of digital companies and we will remain separate as it in a moment of significant expansion and we do not want to alter that.

Moving on to Slide 21, in Bradesco sustainability has always been embedded in our purpose. We are committed to the positive impacts agenda. In the context of COP26 discussions we are present in Glasgow, following the agenda and reinforcing our commitment to mitigating climate change. As a financial institution, we took a lead role on that. Engaging our clients in the transition to a greener and more inclusive economy. Climate change is part of our sustainability strategy. We adhere to the net-zero as the first Brazilian bank taking part in this commitment. We also highlight our recent partnership established with Enel X, which should reach a reduction of 12,140 tons of CO2 equivalent per year of that of our actions have been confirmed, though the recognition of the main

ESG ratings and indexes in which we have been evaluate as being above the market average.

Let's look at Slide 22, in our guidance as we have been discussing throughout in this time, we made changes to four lines, loan portfolio, fee and commission income, insurance and expanded ALL. In loan portfolio, we have reached 16.4% growth compared to last year and we decided to change the range to a more aggressive 14.5% to 16.5%. In client NII, we are at 4.7% and we believe that we went around the year more like the top of the range. In fee and commission income, we are at 5%, already at the maximum point of the guidance that we published at the beginning of the year. That's why we decided to change the guidance, it now ranges from 2% to 6%. In operating expenses, we are at a reduction of 2.5% and we believe that it will end the year with a reduction of 1% in the whole year. In income from insurance operations, we are at minus 19.5% and we decided to review the guidance as the evolution was better than expected in relation to COVID and financial income. The guidance for this line is now from minus 10 to 0% and we believe that it shall be closer to zero. Finally, in expanded ALL, we have BRL10.8 billion as for year-to-date and revised guidance to BRL13 billion to BRL16 billion. We believe that will be between the middle and the top of this guidance.

Now moving on to Slides 23, we want to extend the invitation to all of you to participate in Bradesco day, which will take place on November 10. Before I thank you for your attention, we would like to share our view on '22. We believe that '22 will be a year of growth opportunities. We shall continue with a very good growth in our portfolio in increasing clients NII. We also shall see growth in fees. Costs in expenses continue under control. Any increase in delinquencies will be protected by our strong coverage ratios and provisions. Historically and we believe in history, Bradesco has strived in all challenging years, particular the pre-election ones. 2021 is a year in which we do not have the economy at full throttle as we shall see in 2022. We see GDP growth, especially from agribusiness in which we are the leading private owned bank as a very important source of growth.

We believe the economic activity, shall increase the level of employment and we shall have more clients from that. We see individuals and companies overall low leveraged, so we have room to grow. We also see states with one of their largest cash availability every in history to boost expenditures. Finally, our digital initiatives, Next, Digio and Bitz are bringing new 10 million clients and it's important to note is that out of this 10 million clients base, 75% do not have any sort of relationship with Bradesco. And so we are adding new 7.5 million clients to our 41 million client base. Having said that, we believe we will continue our positive trends. I think you definitely now and we put ourselves available for the Q&A. Thank you.

Questions And Answers

Operator

Thank you. We will now begin the question-and-answer session. (Operator Instructions). Our first question comes from Tiago Binsfeld, Goldman Sachs.

Q - Tiago Binsfeld {BIO 22388233 <GO>}

Hi. Leandro and everyone, thank you for taking my question. First, I would like you to expand on your final remarks regarding these constructive expectations for 2022. So, I was curious to hear about how that should translate into asset quality, any reference you can give us in terms of expected peak when that should happen in 2022? And then I'll ask my second question later. Thank you.

A - Leandro Miranda {BIO 21476649 <GO>}

Okay, no problem. I'm going to answer you and my colleagues here would be more than happy to complement any -- any feature that may be necessary. First of all, we are on a risk on modes. We believe that our credit models are well set. We believe that we have proven to be able to have better seasonal portfolios as we have seen the new harvest. We also see that our delinquency is pretty much under control, when we still have a very robust position of provisions in a very high coverage ratio. So we shall increase even more in individuals and SMEs, but we also intends to increase in large companies as well. Besides that we have been very strong in mortgage and payroll loans and we are going to keep on with this track, with this space, but we also show increased personal loans and credit cards since the economy as our President has said earlier is expected to be on a full throttle. So we believe that the retail as a whole, shall bring a lot of benefits to us.

A - Carlos Firetti {BIO 2489005 <GO>}

Okay. Let me complement with some points here Tiago in terms of the evolution of NPLs, I think we are going to see NPLs rising only gradually. We are still below the pre-pandemic levels. For sure given the change in mix with more mortgage payroll loans and other (inaudible) loans, probably the NPL of our portfolio this features is lower, but we think we may still see some normalization. In terms of cost of risk, we believe for 2022, we're going to have still a good performance. We think provisions probably will grow more or less in line with the portfolio without a major expansion in terms of the cost of risk as a percentage of the portfolio. So we see the -- that our models over the pandemic and even the years before that have performed and have been able to allow us to underwrite very -- loans with very good quality and that translates in this good performance we are observing right now.

Q - Tiago Binsfeld {BIO 22388233 <GO>}

Thank you, Leandro and Firetti. That was very clear. My second question would be on credit card fees. This line performed very well this quarter, but was still below the volumes growth, so lower than credit card spending. So I was wondering if you could comment on the main dynamics for this line? In particular, if you could comment on both the interchange part of it and the fees that we charge, how those two are behaving, that will be nice to hear? Thank you.

A - Carlos Firetti {BIO 2489005 <GO>}

Tiago, we think we have done a very good job in the credit card business. I think we have been evolving in many features of our products, new products, products, where we don't charge the annual fees, they are more based on volumes. And we can say Bradesco has probably the most diversified portfolio of credit cards in term for all segments for all levels, all kinds of clients. What we are seeing is a very strong recover in terms of transaction volumes. We are growing almost 30% year-on-year for the quarter comparing to the third quarter '20 and we are also growing nicely if we compare to '19. We think this path of growth will remain. When you look to fees, we think they will continue to be a driver for the total overall fees we generate. The fact that it still grows below volumes somehow reflect the fact that we have new products, as I said some -- in some cases products without the annual fees. But I think the overall trend is positive and I think that's going to be one of the drivers sustaining fee growth -- growth going ahead.

Q - Tiago Binsfeld {BIO 22388233 <GO>}

Thank you, Firetti. I appreciate the answers and congratulations on the results.

A - Carlos Firetti {BIO 2489005 <GO>}

Thank you.

Operator

Our next question comes from Jason Mollin, Scotia Bank.

Q - Jason Mollin {BIO 1888181 <GO>}

Thank you. Thanks for the opportunities to ask questions Leandro, Firetti. My question is in some way a follow-up to the prior one,. mean it sounds like a pretty constructive outlook given the scenario for 2022, whether it's on growth or risk and fees. Can you talk to us about the risks that you see to this base case constructive scenario, where do you see, is it employment, inflation, is it government policies that don't allow -- don't really underpin and investment environment for companies, given the uncertainty? What does Bradesco see as the key items to look to for the next year to identify?

A - Leandro Miranda {BIO 21476649 <GO>}

Thanks Jason. Thanks for the question. I guess the first risk that we all have is pandemic itself, it seems to be under control, but no one knows, if it's going to be a new virus or a new change in the virus that can jeopardize all the good path that we are running to. Brazilian population as a whole has responded very well to vaccination and we expect to happen this way. It's going to be a very volatile year as a year before the presidential elections. Of course, as inflation goes on and we believe that the Central Bank is very aware of that and responsive. We understand that the increase in interest rates in the way that the market is indicating, shall help us to have inflation under control, but let's assume that for some reason it's not enough. Of course, having high inflation takes you to a much, much higher interest rates and it can jeopardize all the growth or the economy recovery here.

The company used to be more and more cautious in those years. So we believe that they shall have additional liquidity in their cash positions in order to face any kind of difficult that they may see throughout the year and the beginning of 2022. So I would say that those are the main risk, but my colleagues here may add any other that they see, but we are prepared for that. We have lived this before and we are very well set to see. We understand that inflation is finally under control according to the new speech and behavior of the Central Bank. We see the population getting back to work, not only on a virtual manner. And we believe that is as Octavio said earlier that at least 0.7% of GDP, we take to the following year and besides that the agribusiness is very strong. So we shall see more employment, more clients and more business.

Q - Jason Mollin {BIO 1888181 <GO>}

Do you think that you would add competition or let's say maybe not so disciplined competition raising money and putting money to work in businesses where returns are not a priority in the short term, is that a risk to the outlook?

A - Leandro Miranda {BIO 21476649 <GO>}

It's something so funny, although we have few banks here in Brazil, the competition is always very fierce. It is extremely high, so it's impossible to imagine a fiercer competition. On the other hand we shall have a bigger pie to share. So, as the economy grows, we also benefit from that. So by the end of the day, we do not see ourselves losing results to other banks. On the contrary, we are very well prepared, either with open banking peaks or any other of banking products and services and especially on insurance loans to competed to get market share. We see ourselves growing not only with the GDP as we have historically grown -- grew more than the GDP, so we shall be fine.

A - Carlos Firetti {BIO 2489005 <GO>}

Yeah. And just an additional angle on the answer. So far we have seen a lot of impacts, a lot of want to be competitors, mostly focus in growing the client base. We have seen very little in terms of new competitors on lending. The competition in lending as they understand is huge, but mostly from the traditional competitors, and I think that's going to be the scenario for -- probably for -- still many years.

A - Leandro Miranda {BIO 21476649 <GO>}

Jason, just to give you a flavor, very interesting data is that, we have more credit given to our digital channels than the whole financial FinTech market. So we are bigger than the whole FinTech markets, just in digital channels and of course you'll have to add to that all the traditional channels that we have. It's BRL30 billion and BRL1.1 billions in in insurance policies.

Q - Jason Mollin {BIO 1888181 <GO>}

Yeah, it's interesting. Super helpful. Thank you, gentlemen. Congrats on the strong results.

A - Leandro Miranda {BIO 21476649 <GO>}

Thank you. Thank you so much, Jason.

Operator

Our next question comes from Mario Pierry Bank of America

Q - Mario Pierry {BIO 1505554 <GO>}

Hi guys, congratulations on the results. Thanks for taking my questions. Let me ask you two questions, also Leandro. Let me start here and to staying on the topic of asset quality. On your closing remarks, you mentioned that individuals and companies are with low leverage. However, this seems to contradict some of the figures that we saw from the Central Bank earlier this year, showing that the level of indebtedness and debt service of the Brazilian consumer is near all time highs. So can you just explain then why the contradiction, why is the Central Bank showing one number and you're seeing something different? And then I will ask my second question.

A - Carlos Firetti {BIO 2489005 <GO>}

Mario, let me take this one. Basically first the perception that consumers are overleveraged is something that really is not, we don't see -- look into our credit models and what we see from the clients that have underwritten loans that is first thing. Another thing, we have some studies from our economists and I think even other economies are already taking noting of that. The methodology in terms of calculating the income by the Central Bank that is used in this leverage ratio, that is based on the so-called demand has imperfections, especially considering the methodology they are using with phone calls to do the survey. We are going to present interesting chart in the Bradesco day that shows that actually the leverage from -- in the video is actually did increase as is pointed by the Central Bank figures, but it is more in line with what we see observing our base of clients.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. Yeah, that'll be very helpful, I guess, we will look for that next week because we do get a lot of questions from investors nowadays about that there's figures from the Central Bank was a concern for a lot of investors. So if you can show that the leverage is not as high, I think it'll be very helpful? O the second question...

A - Leandro Miranda {BIO 21476649 <GO>}

Mario, before going to the second question, just to -- to share, we are going to be more than happy to have another meeting with you in our economist, more to clarify all the mathematics behind the Central Bank figures.

A - Carlos Firetti {BIO 2489005 <GO>}

Yeah and then just addition on the as we're pointing here to meet. Also we have all the growth in mortgage part of the -- on top of what I said, part of the increase in leverage comes from mortgage that is a much lower risk and somehow long term.

A - Leandro Miranda {BIO 21476649 <GO>}

Yeah. And you have to consider the instalments, not the overall amount because it's 30-year transaction right. So by the end of the day what we see is the ability off and willingness of the clients to repay and the durations have extended tremendously. So you have to take this into consideration as well, but we can get into a deeper dive afterwards, if you wish, more than happy to...

Q - Mario Pierry {BIO 1505554 <GO>}

Perfect. There'll be great. And then the second question then is related to your insurance results, right. As you showed, they have rebounded much faster than you anticipated just last quarter. It seems like the improvement is both financial income, but also operationally, especially with claims. But when we look on Slide 11 here, it seems to me like your claim ratio is still is relatively stable. So, can you discuss a little bit about the trends between product. So I would imagine that life in (inaudible) or at life claims probably have been coming down, but health and auto have not. Can you just discuss the different dynamic by product? Because again, I think this is a major upside for your figures in 2022, right. As you show, we have a BRL4.3 billion in COVID-related claims this year and this number should decline quite a bit next year. So I'm wondering how we're going to see the decline in claims? Is it going to come first in life and then in health and then in auto or if you can discuss that, that'll be helpful? Thank you.

A - Leandro Miranda {BIO 21476649 <GO>}

That's fine. First of all, I would like to add another item in your list. We have grown our premiums dramatically. So, we have an increasing sale, we have a very good controlling claims and we have finally some sort of balance between IGPM and IPCA. You know that IGPM takes care of our liability and IPCA represents our assets. And the difference that we have seen was something -- I mean that we have never seen before and it's totally abnormal, that's the reason why we see this from now on having a very good behavior. IGPM and IPCA shall be together and so in this sense we saw benefits. The insurance company has always comprised of operational feature as well as the financial one. So they are part of the equation and we believe that they are good on this matter.

A - Carlos Firetti {BIO 2489005 <GO>}

Yes. Just a point on that, IGPM in the first half was a little bit higher than 10% more than IPCA. I think that's something that we don't expect to see going forward. But going to the loss ratio, we definitely had already more substantial benefits in the life insurance part of the claims. The core also hit by the costs related to COVID, the benefit from the improvements from pandemics came faster on that line. We started to see some some benefits in terms of health. The thing with health is the improvements on loss ratio claims related to COVID was partially offset by the increase in frequency of normal procedures since people were holding some of these procedures due to the peaks of the pandemics. We think as time goes by, we will see a normalization on that.

Claims on health will take a while to have full normalization, but we think the trends are very good and that should be a good driver for the insurance perform going ahead. In terms and as Leandro said in terms of premiums, we are delivering a quite good performance. We see strong demand for insurance products in life, in health and in other lines and we think that will be the new normal in the after pandemics.

A - Leandro Miranda {BIO 21476649 <GO>}

In brief, we can see life reacting almost immediately, health is going to take some time, it's going to grow on a steady base and we may see auto recovering fully in 2022. That's our view for each segment.

Q - Mario Pierry {BIO 1505554 <GO>}

Perfect. Now that's very clear. And this can be a significant tailwind for your results in 2022. Thank you.

A - Leandro Miranda {BIO 21476649 <GO>}

We believe so. We believe so. Thank you.

Operator

Our next question comes from Olavo Atruzo [ph], UBS.

Q - Unidentified Participant

Hi, everybody. Congratulations for the results. I have just in one question and I will shift a little bit the (inaudible). Actually, I would like to have a little bit more color about the marketplace of Next because it was recently allowed to declines of the digital bank. So I wanted to understand how has been the dynamic of the cash back of Next marketplace? In other words, if you could share with us, how much was the average of the cash back at this period of maturity of the marketplace? And also a follow-up question on Bitz, how many of available sellers there are in the the platform? Thank you.

A - Leandro Miranda {BIO 21476649 <GO>}

Thank you very much for your questions. I have Renato Ejnisman here on the line and he is going to be more than happy to answer both questions. So Renato, please.

A - Renato Ejnisman {BIO 17266174 <GO>}

Okay, so thank you for your question. So we launched this literally yesterday and it's been a already a tremendous success level. So essentially what we have is a full marketplace that we took a decision to launch before Black Friday and we decided to have it with a number of differentiating factors considering the competition. So first of all, we have very -- I believe incredible user experience. Everything is 100% inside our app. So our clients don't have to leave the app to go to another store or anything like that as many of our competitors do. Secondly, we decided to be very aggressive on cash back and that has two different things. I mean, one is the clients receives the cash back as soon as the credit -- the payment is approved. So if a person does a payment by credit cards, as soon as the credit card approves that transaction -- the person receives on his or her account the cash back, and obviously you know if they have -- if they decide to cancel the position this side to return the product, then we -- we take that the cash that was left on the -- on the account. And also with -- the third thing is you know definitely increase the number of sellers, so we have a vast selection of sellers. When we launched, we launched with 14 sellers, including some of the largest retailers in Brazil. So we have a pretty good suite of products there with what we did was we studied what is the typical demand on Black Friday and we have you most -- about 90% of what client demand in terms of their purchases on Black Friday. And we will continue to grow after Black Friday, obviously there is Christmas and next year, we intend to grow the marketplace to other features outside of the -- the typical e-commerce. Thank you.

Q - Unidentified Participant

Okay. Well very clear. Thank you very much.

A - Leandro Miranda {BIO 21476649 <GO>}

Thank you very much.

Operator

Our next question comes from Marcelo Telles, Credit Suisse. Please proceed.

Q - Marcelo Telles {BIO 3560829 <GO>}

Hi, hello everyone and congratulations on the strong results. I have two questions. And I apologize, I missed the beginning of the Q&A. So I apologize if I repeat. Can you comments a little bit, the outlook for your margin with the market. I understand for this year, I think kind of like the softer guidance was around 22% to 30% reduction in margin with the market and as rates continue to go up towards 10% or maybe more next year and I think you're probably at BRL1.6 billion in this quarter, should we expect this to continue to decline next year? And I understand you're very optimistic on the -- on your priced NII and you definitely should be. And how should we think about the evolution of your overall NII including in the market with as for 2022? That's the first question.

And then the second question is with regards to your capital position If you can just -- how can we square things in terms of potential for say higher payout or extraordinary dividends? And if I understand you in a better capital position right than your peers, but on the other hand we have potential approval of the tax reform and that would be a potential hit of 400 basis points give or take for the large banks in general, probably phased in, but still would that prevent you from being -- let's say more aggressive on payout or coming out with an extraordinary dividends, how should we think about your payout strategy in light of let's say potential negative impact from the tax reform if approved. of course?

A - Leandro Miranda {BIO 21476649 <GO>}

Okay, thank you so much Marcelo. I guess I'm going to start from your second question because it's pretty much straightforward. We have a very strong capital position. Despite of all the possible tax hikes that we shall see that, we see that it does not affect us in a way that prevent us from doing business. We will see room to pay very decently our shareholders and the way we see it is that we have to the more we can get very fast to our historical levels that's shall be around 40% just in dividends, okay.

Besides that, if we think that the price of the shares are not a according to where they should be we are going to use the repurchase programs as we have started this year. So that's the first question. So we intend to pay our clients well. We are going to wait to see the definitions on taxes in order to define what is the best, the optimum capital according to the market opportunities and challenges as well, and we are going to pay dividends and repurchase stocks, especially if we have very strong dividend being taxed right.

The first question is that we are not so much focused on the market margin. We are more and more focused on the clients. We intend to be the bank that makes money with clients, brand re-services, giving them the best products as we understand them better than anyone regarding to leads and ability to repay that. Therefore, we believe that as we have said before, 2020 was an extraordinary year for our treasury. It was opportunistic, but now we shall see our NII improving, but much more because of the margin with clients than the margin with markets. So there shall be an improvement, but it comes from clients.

A - Carlos Firetti {BIO 2489005 <GO>}

Yeah. Marcelo as you know, since the beginning of the year, we have been saying that for this year, it was already the fact that we would have a reduction in the market NII comparing to 2020. We discussed the number, a range between 20% and 30% reduction. We stick with this number for 2021. And we can say that for 2022, we should have another reduction, but as Leondro pointed, we should have a much stronger NII from clients from the good trends in terms of the loan book. We see the production of new loans with higher spreads and that should continue healthy, the margin credit. But also a positive trend in the margins for our funding part of the business that directly benefits from higher selling. So overall, we think the -- as Leondro said, the client NII portion is much larger and much more important than the market NII.

Q - Marcelo Telles {BIO 3560829 <GO>}

That's very helpful. If you allow me just to ask the question, totally out of the box and it'll be interesting to hear your thoughts, I mean, as you know, we have in the IPO of a big digital bank, you know the devaluation that has been depressed, it's almost more than double your market cap. And how do you feel about that and how do you see it -- what are the -- what is the -- the potential opportunity to monetize your Next business?

A - Leandro Miranda {BIO 21476649 <GO>}

Well, this is a very interesting question, but I guess the market always has the answer. The price is given by the markets. So the good part of that is that as we are getting more and more digital, as you could see that nowadays we representing credits more than the whole FinTech industry including the bank and we are using more and more our digital channels, more than 50% of our transactions are read through there. So we shall have much, much higher multiples.

Q - Marcelo Telles {BIO 3560829 <GO>}

Okay. Yes. I understand. So you feel that this part of the business is being under is certainly under appreciated in you valuation currently?

A - Leandro Miranda {BIO 21476649 <GO>}

No question about it. I mean, Octavio has said earlier, our strategy native digital banks, as we have Next and Digio and also Bitz, as our wallets. Imagine this universe all together with more than 10 million clients just beginning. And with our support and operational agreements with those in order to understand credit better than any financial institution from the FinTech world. I mean there, I would say their major weakness is credit concession, is credit management assessment and concession. And we are kings of that. So this is something unique that our digital platform platforms benefit from.

Q - Marcelo Telles {BIO 3560829 <GO>}

That is very clear. Thank you.

A - Leandro Miranda {BIO 21476649 <GO>}

Thank you.

Operator

Our next question comes from Pedro Leduc, Itau BBA.

Q - Pedro Leduc {BIO 16665775 <GO>}

Hi, good afternoon everybody. Thank you for the question, congrats on the quarter. I wanted to pick your brains a bit on a relative performance positioning for the next year. And of course you enter 2022 with a very strong momentum and that is underpinning your optimism, which is great. And of course you are aware of the more challenging macro outlook. So when we hear you talking about double-digit loan book growth, again I can't avoid thinking that this would imply you're gaining share, next year.

Is that a fair assumption, and if so growing ahead of the market, what do you believe is driving this is a better processes the additional origination of just picking up a lot or you've been able to be more competitive would embrace sort of consumer. And how do you avoid having to add more risk not to keep gaining share? Thank you.

A - Leandro Miranda {BIO 21476649 <GO>}

Hi, Ped, Leandro speaking. Well, pretty much, there are three pillars for that. The first one is that we believe that the commercial growth, we have 0.7% going forward, we have the agribusiness. And we shall have a better economy with more employees earning their salaries and being able to finance their dreams. And therefore we shall increase our portfolio as a whole. We also believe that in volatile years, companies especially the big ones, they tend to be more conservative to enhance their cash position. We have inflation, so by the end of the day, it also grows, the portfolio as a whole. And besides that, we believe that the pie shall grow. It's not only going to be a matter of taking someone's market share, or take into the other, but we are very well positioned to get more market share to. We intend to be leaders in every single segment that we play. So I would say that there is a combination of BIA [ph] growth a little bit of more market share, inflation and economy picking up.

Q - Pedro Leduc {BIO 16665775 <GO>}

Very good. Understood. And if I were to transport that question on to credit quality a bit, of course your individual portfolio NPL you are comfortable with it and that's fine, the mix is on your side, definitely, but it already rose ahead of the industry in this 2Q and all the individual NPLs. And so, if I were to make the same question for loan book growth, but for credit quality for next year, we believe, we will be performing more in line, when the industry or slightly better, given the mix and the processes or you are can accommodate a little more risk using the coverage ratio. Thank you.

A - Leandro Miranda {BIO 21476649 <GO>}

And I was just talking here to Firetti, because we have a table that shows this exactly that -- it's our NPL, nowadays is much lower than our historical levels. So, of course, we see the NPL growing but is still below our historical levels. And we were aware of that since the beginning that's the reason why we have made so much provision ahead of the market. We have been so much conservative than the rest of the market regarding to coverage. So it's expected to grow. But on a very good behavior, when we see our historical levers, I commit to sent it you afterwards, this track record of ours regarding to our coverage ratios and NPL formation.

A - Carlos Firetti {BIO 2489005 <GO>}

Yeah. Just complementing here as Leandro said. We have a very strong coverage, we are still at 297% ahead of our competitors. For next year we think NPLs will will increase Alero [ph] they are too low. I think that's a trend, but considering our more conservative mix, we think this increase is going to be contain it. Overall, we believe we can expect the cost of risk goes up, as the growth and provision expense to be relatively in line with the growth in our portfolio -- stable -- relatively stable cost of risk as a percentage of portfolio.

Q - Pedro Leduc {BIO 16665775 <GO>}

Got it. I see where you go. Thank you so much.

A - Leandro Miranda {BIO 21476649 <GO>}

Thank you, Pedro. Take care.

Operator

Our next question comes from (inaudible), you may proceed.

Q - Unidentified Participant

Yeah. Hello. Hi everyone there, and best wishes from Stockholm, Sweden. And I have a question relating to the dramatic change in the yield curve, that has happened since May. It's one of the most dramatic that are seen during my 40 years in the investment business. And I wonder how Bradesco is coping with this, because short rates has been going up from below four to over eight, yield curve has flatten out.

And the rate is about the same between two and 10 years. How has -- how is the bank doing on these? I would say it's a negative drag because normally you know banks works well when you have steep yield curves. So that's the one question and then other one is more general. I think the Brazilian Central Bank is chasing a ghost inflation which is not there. I mean, interest rates (inaudible), we've pushed up 100% from below 4 to 8 since May. And this will affect the growth. Inflation, I think everyone must understand that inflation is coming from, that the currency has collapsed. I mean, the real has been going up from a $4 to the to almost $6, that's imported inflation and it's temporary. So I think, and the Brazil Central Bank has been doing very, very badly. And they put up interest rates and it hasn't helped the currency at all. Normally when you put up rates you know, it gives. But on the real is still at 65, 70. So that's a more general question. First question what's happening to the yield curve? How is defecting Bradesco? And then you can have some comments on my complaints maybe about the Brazil Central Bank chasing ghosts. Thank you and good night from Stockholm.

A - Carlos Firetti {BIO 2489005 <GO>}

Thank you for your questions. Regarding your concerns on the very strong move of the yield curve, I understand your point of the general impact of that in banks. In our case, probably the discussion on the market NII, this reduction in this portion of our results is where we capture this impact of the higher yield curve.

On the other side, I think one of the major difference from Brazilian banks to banks like in Europe, for instance, is actually the duration of the mobile. We have a much shorter duration, the repricing of our portfolio has it happens faster. So we can reprice and put loans and assets at higher rates relatively fast. I think, that's how we cope with this. That's why we are saying we believe the -- client NII that is where we have the spread portion of the margin. Benefits, on the credit side with actually improving spreads, and on the other side on the spreads from funding, we have fully passed through to the rates the higher used curve. And I think that this fast repricing is how we cope with that. Regarding the the Central Bank, I think, I understand your points, mostly it's understood that actually the Central Bank had to move to control inflation. I think it's going to have results and probably that's the appropriate move.

Q - Unidentified Participant

Okay. Thank you for that. And congratulations to the congratulations to the results. Stock up in U.S. dollar 7% today. So, congratulations, and thank you for having me.

A - Leandro Miranda {BIO 21476649 <GO>}

Thank you. Have a nice day.

A - Carlos Firetti {BIO 2489005 <GO>}

Thank you.

Operator

Our next question comes from Carlos Gomez, HSBC.

Q - Carlos Gomez {BIO 15024854 <GO>}

Hi, thank you for taking the question. I wanted to ask specifically about the real estate market and you're lending to real estate, which has been growing quite considerably. You are concerned about the economy for next year, does that also extend to real estate and to mortgages? And second, at what point do you have seen that the funding from (inaudible) from the savings accounts might be insufficient. And you might need to change the nature of the product or change the way in which you refinance mortgages in the market? Thank you.

A - Leandro Miranda {BIO 21476649 <GO>}

Hi, Carlos, it is Leandro speaking. We do not see it as a concern. We believe that as we have a higher employment rates, this is a dream of every client of ours of every Brazilian. So they shall get into mortgage financing the mortgage account, in order to have their own home. We have a very good loan to value, loan is very, very small when you compare to the total amount of the portfolio. And besides that we have no pressure from savings as a source of funding so far. So we are good, I mean, we are positive with the trend shall keep on going. The key is the loan to value.

Q - Carlos Gomez {BIO 15024854 <GO>}

Okay. And any pressures on the other side by competition, any pressures on margins at this point?

A - Leandro Miranda {BIO 21476649 <GO>}

Well, we have a lot of competition, especially from Caixa Economica figure out, that is the leader in this segment. The other banks are trying to catch up as well. We see competition, but by the end of the day, this is a very product to cease more engaged allow us to have around eight products being cross sold. So we're -- we have ahead of the industry, a process that is very fast, very effective and the rates are pretty much align it.

Q - Carlos Gomez {BIO 15024854 <GO>}

Thank you so much. And...

A - Leandro Miranda {BIO 21476649 <GO>}

So it's going to be much more (Multiple Speakers) from understanding and serving clients and anything else.

Q - Carlos Gomez {BIO 15024854 <GO>}

Okay. Thank you.

A - Leandro Miranda {BIO 21476649 <GO>}

Thank you, Carlos.

Operator

Excuse me, since there are no further questions, I would like to invite the speakers for the closing remarks.

A - Leandro Miranda {BIO 21476649 <GO>}

Well, thank you very much for making the time to be with us. We are very proud of the results of their engagement as a whole of 3Q. We are positive for the fourth quarter and going on into 2022. We hope you have a nice day and keep on with your health. Take care everyone.

Operator

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