Y 2020 Earnings Call

Company Participants

- Andre Rodrigues Cano, Executive Vice President and Chief Financial Officer
- Carlos Firetti, Market Relations Director and Head of IR
- Leandro Miranda, Executive Director and Investor Relations Officer
- Octavio de Lazari, Chief Executive Officer
- Unidentified Speaker

Other Participants

- Geoffrey Elliott
- Jorge Kuri
- Mario Pierry

Presentation

Operator

Greetings, ladies and gentlemen, and thank you for waiting. We would like to welcome everyone to the Bradesco's Fourth Quarter 2020 Earnings Conference Call. This call is being broadcasted simultaneously through the internet in the Investor Relations website at bradescori.com.br/en. In the address, you can also find the presentation available for download. (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 the 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, Market Relations, Director and Head of IR.

Carlos Firetti {BIO 2489005 <GO>}

Hi everyone. Welcome to our conference call for the discussion of the fourth quarter results. We have today with us our CEO, Octavio de Lazari, our Executive Vice President and CFO, Andre Rodrigues Cano; Bradesco Seguros, Chief Executive Officer, Ivan Gontijo; and our Executive Director and Investor Relations Officer, Leandro Miranda

For starting the call, I turn the floor to Andre.

Andre Rodrigues Cano {BIO 17254737 <GO>}

Thank you, Firetti. Greetings everyone. Welcome to our conference call. Needless to describe 2020, it's widely known how challenging that year was and the impact the pandemic had on our lives, families, communities and the global economy as a whole.

Bradesco's performance was naturally below what we expected a year ago, by the time that represent our guidance during the fourth quarter 2019 earnings conference. But it certainly was by far much, much better than we imagined that it would be soon after the beginning of the pandemic. We are proud to deliver our best results ever. We would like to thank all of the Bradesco's team for its commitment, resilience and creativity.

Our Board and especially Mr.Trabuco for his wisdom, guidance and trust. 2020 was a year of much learning of breaking project and of lessons that have changed the way in which we do business. Home office has come to stay. The digitalization of our operations has deepened. The habits of clients have changed it and once again, we were able to adapt to the new scenario and thrive, as we have always done.

Unfortunately, the pandemic is not over. It's still has a terrible cost in terms of lives and suffering, but we believe that over the coming months, with the development of vaccination logistics, we will see a significant reduction in the number of cases and victims. In relation to economy, we can see during 2021, consolidation of the economic conditions. The increasing the number of the COVID case has brought greater restrictions to the economic activity. But we expect minor impacts on the economy then we had at the beginning of the pandemic due to the learning curve experienced in the first wave.

We believe that the next tax incentives will be smaller, preventing further deterioration of public expenditures and asset prices. With acceleration of inflation, the Central Bank of Brazil should start raising interest rates in the coming month. Considering these factors, the strong up there in the employment, income, trade and industry has lost traction at the moment, but with little impact on our expectation for GDP growth in 2021 and even better performance for Bradesco.

We now turn to Slide 3. We presented a rather strong results in the fourth quarter with a net income of BRL6.8 billion in an ROE of 20% for the quarter. The expanded loan portfolio grew by 3.4% in the quarter and 10.3%, when compared to the last 12-month. We closed 2020 with the Basel 1 ratio at a very comfortable 13.8% level, representing a 90 bps hike in the quarter and 50 bps compared to December 2019.

We continue to have a very good cost control with the total cost reduction in the fourth quarter. With a reduction of 9.3% in this quarter, in comparison to the previous year. Leading the ER to close to 44.6% in the quarter and an accumulating drop of 7 percentage points -- 3.7 percentage points.

On Page 4, we present our income statement. We had a well-balanced income in the quarter, with number of line showing solid performances. The net interest income grew by 9% in the quarter and 8% in an annual comparison, supported by strong performance of the market portion, including a quarterly growth of the client portion. Our ALL expenses drop at once again in the quarter and headed towards normal levels. Fee and commission income grew by 7.3% in the quarter with the annual decline slowing to 1.3%. As mentioned, we saw an excellent performance in terms of costs resulting from the adjustments we made throughout 2020.

The next slide we explore the lines into more detail. Turning now to Slide 5. The funding continued on an upward trends. The deposits from clients, net of compulsory deposits grew 3.3% in the fourth quarter and 38% in the annual comparison. We had net funding of approximately a BRL158 billion in 2020. With this evolution, our loan to deposit ratio closed the year at 82%, which indicates our high liquidity.

In Slide 6, we present our expanded credit portfolio, which grew by 10.3% over 12 months. Annual growth was 5.6% in large companies and 18.7% in SMEs. Individuals grew 11.7%. One of the growth highlights in 2020 was the real estate financing line with an increase of 33.6%. The SME line grew by 18.7% and the payroll-deductible loans line grew by 10.6%. Credit origination continued to grow in the quarter. In an annual comparison, the individual segment presented growth. We entered 2021 with an increased appetite for credit, with adjustments in our models that should allow for greater origination without significant increase in risk. So, we expect a good growth of the portfolio in 2021. We will be talking more about this into the discussion about the guidance that we shall have by the end of the presentation.

Turning now to Slide 7. Our expenses with Expanded ALL came down to BRL25.8 billion in 2020, which is BRL11.4 billion higher than 2019. In the quarter, we saw further reduction reaching BRL4.6 billion, or 2.7% of our loan portfolio compared to (Technical Difficulty) BRL5.3 billion, or 3.4% of the portfolio in the third quarter.

This reduction took place despite an increase in impairments to BRL1.44 billion, BRL87.1 million more than in the third quarter. Due to the specific case of large company that you shall well-known. We consider our provisions to be very comfortable considering the expected losses.

Moving now to Slide 8. The delinquency ratio over 90 days remained well controlled, showing a reduction of 10 bps in the quarter due to the drop in individuals. While SMEs and large companies remain pretty much stable. This positive performance is a result of the high quality of pre-pandemic advantages. The solid trend of customer financial health with rate extensions and renegotiations during 2020.

The 15 to 90 ratio already show signs of rising default. As we expected, the total ratio rose 50 bps. We believe that the increase in the 15 to 90-day ratio will begin to have an impact on the over 90 days ratio in the upcoming quarters. However, we are optimistic about the scale of this increase. And we think that our provisions are more than sufficient for expected losses. We understand that it will probably pick between the second and third quarter of the year, but in levels that are not much higher than the pre-pandemic ones and we are prepared for that.

Turning now to Slide 9. We saw an increase in the level of NPL creation over the quarter settling at BRL3.7 billion. Our gross ALL for the quarter represented a 111% of the NPL creation, which shows that we are not consuming provisions.

On Slide 10, we can see the 90-day NPL coverage ratio, which further increase it to a very comfortable for 3%. With respect to the segment, we have coverage for of 268% for individuals, 1167% for large companies and 566% for SMEs. The coverage ratio, which includes the renegotiated portfolio usually slightly to a 118%. We would like to remind you that the loan provisions in the renegotiated portfolio represents 62% of its total, which is higher than the historical losses that we verified in this portfolio.

Now we turn to Slide 11. As of this quarter, we've begun to publish -- we began to publish the extended portfolio with a new concept, showing the accounting balance has already net of amortizations. We believe that this methodology allows a better visualization of the evolution of the extensions.

The extended portfolio totaled the book balance of BRL48 billion at the end of the fourth quarter. A reduction of 13% compared to the third quarter 2020. This value was pretty much composed of BRL41.4 billion on time, which means that they are no longer in the grace period with payment of at least one instrument.

BRL3.8 billion still in the great spirit at the end of December and we must highlight that of this amount BRL1.9 billion are no longer in the grace period in January. And finally, BRL2.9 billion of transactions that were extended at any time. This extension ended and these transactions are in arrears for more than 30 days. This represents only 0.6% of the total of the bank's loan portfolio.

We believe that the behavior of the extended portfolio was very good, exceeding our initial expectations. This fruit of our good credit policy, which led to a high-quality vintage in the period prior to the crisis.

Moving now to Slide 12. Our renegotiated portfolio in the fourth quarter grew BRL1.9 billion, BRL1.7 billion, when accounting for elective credits. This is a significant acceleration to previous quarter. The renegotiation growth in the quarter is primarily made up of loss that are less than 90-days in arrears, meaning that they have a better quality in a greater chance of collection success. Loan provisions in the renegotiated portfolio represents 61.5% of the total portfolio. The delinquency ratio for the renegotiated portfolio was 7.4% in December.

In Slide 13, we see that the net interest income grew 9% in the quarterly variation and 8% in the annual comparison. The client portion grew 3.3% in the quarter, mainly due to the increase in volume, with the stable NIM. The market portion showed a very strong performance in this quarter.

The total NIM grew to 6.4% in the fourth quarter compared to 5.9% in the previous quarter. NIM with clients remained stable at 9.2% after three quarters of drop. We do expect a recovery of the NIM, with clients in the quarterly comparison throughout 2021.

Now turning to Slide 14, we can see that fee and commission income presented a 7.3% quarterly growth and a 1.3% drop in annual comparison, reducing the fall in relation to the previous quarter. For the quarter, some highlights included the solid performance of credit cards, checking accounts, loan operations and consortium.

Looking at the asset management line, we are still being negatively affected by the integration of funds from fixed income funds to deposits as well as reduction in the management fees for this funds. We have seen an improvement in our product mix, part of an adjustment process that should lead to an improved performance, particularly in the second half of 2021. There was also positive trend in the number of account holders in 2020.

We now turn to Slide 15. Our performance in terms of costs and expenses was one of the highlights of 2020 and the fourth quarter of 2020. Our personnel and administrative expenses dipped by 6.9% in the fourth quarter in NIM comparison and 5.9% for 2020 as a whole. The growth compared to the previous quarter is due to the resumption of activity and the seasonality of the fourth quarter itself.

Given the total cost, including other expenses a decrease of 9.3% was seen in the quarterly variation, with 5.3% in 2020. This performance is due to the solid cost management measures that we adopted throughout the year by adjusting our structure, our cost to serve, and especially our branch network, taking advantage of the opportunities created by the change in our clients' behavior. We will continue to explore cost management opportunities in 2021 and beyond.

Now moving to Slide 16. 2020 witnessed an acceleration of digital trends. There was a dramatic increase in the number of users and transactions on the mobile channel. These dynamic comprised new clients and an interesting movement of traditional clients, who had once resisted mobile and now have become users, some of them even have users.

We saw a 23% growth in our mobile clients and 15% in digital clients in 2020, which also includes internet banking, coupled with both in users there was also a market increase in the volume of transactions.

Same time, we have seen a significant reduction in the number of teller transactions, which dropped almost 62% in 2020, a trend that shall remain. This recent movement in particular, allowed us to intensify streamline efforts for our network, consolidating branches and using more intensively alternative formats such as business units.

On Slide 17, we present our performance in insurance, which showed a recovery in the financial income in the fourth quarter, related to the increase in the IPCA and appeared in the result of attained in the variable income strategies.

In the accumulated view, the 31% reduction in profits is related to the default in the financial results that reflects the economic indexes, especially the IGP-M and by the prudential provisions for an adverse scenario.

Insurance groups revenue fell only 5.1% in 2020, despite the pandemic and partial functioning of some distribution channels. The operational results decrease in the quarter due to the higher loss ratio. This effect as we expected is related to the increase in the frequency of claims furthered by the resumption of elective advancing health and occurrences due to the relaxation of social isolation measures.

Also in health, in the fourth quarter, we reclassified BRL632 million from the non-technical provision for adverse economic scenario to the technical long-term provision, which positively affects the other expense line, the bank and negatively affect the operational result in the insurance company. We present these adjustments in the charge, as you can see here above. Our combine at the index in the annual view [ph] despite the effect of the pandemic achieved a very consistent performance in the period reaching 85%.

We now change to Slide 18. Our capital did very well in the fourth quarter with the common equity ratio in Tier 1 increasing by 90 bps. Our capital position has settled to rather comfortable levels with common equity at 12.7% and Tier 1 at 13.8%. Our capital will continue to grow in 2021, based on the recovery for ROE and our expectations for credit growth. This provide us with flexibility in our capital management policy for 2021.

Turning to Slide 19. We bring on this in on the next slide one of the main strategic movements we have in the bank at the moment. Our strategic focus is centered on the pursue to Basel clients with proposed for customer service, aligned to their needs and expectations in order to consequently obtain their loyalty in a confident and sustainable manner.

Thus in 2020, we have reviewed the corporate strategies of customer relationships, creating initiatives aimed at meeting their expectations, aligned with their lifecycle and providing an increase in their level of satisfaction for the excellence achieved the during their entire relationship with our organization as a whole.

In this sense, we highlight two important initiatives. The first one is the structuring of the corporate program called a 100% client are which aims to organize our business model to ensure that the client is always at the center of our attention and is monitored through NPS. The create second -- the creation of the position of Chief Customer Officer in order to ensure that the policy of customer satisfaction is effective in sight the whole organization.

Going on, we switch to Page 20, a fundamental part of the customer strategy at the center is our digital transformation. We created the various areas of the bank, culture of intensive data use, with supporters in the various business decisions and process. The better understanding of customers by the use of data allowed us to create contextualized offers based on personalized customer journeys. An example of this, is the case of the credit offered through peaks, which you have been offering since the launch.

We also continue to evolve in the construction of digital journeys with an omnichannel vision supported by modern real-time decision and communication platforms with our BRAIN and CRM 2.0 projects, via continues to evolve, play an important role in clients transition to the digital world and in serving our branch network with agility and efficiency. Most of our team is already working in agile model in multidisciplinary oriented to clients journey.

We have evolved rapidly in partnerships, adding services and products from third party in our value proposition. This is the case of partnerships such as Disney and OLX for the sale of real estate loans, which will be accelerated this year with open bank.

Now we change to Slide 21. We continue to show progress in our three digital initiatives. Agora, next and Bitz. At Agora, we closed the year with 547,000 customers an increase of 49% in 2020. While the AUC of customers grew 33% in the year. We evolved in the offer of products throughout 2020, placing Agora as one of the most complete offers in the market.

Next (inaudible) and its project to segregate to be segregated from Bradesco, gaining operational independence has moved on. We closed the year with 3.7 million customers and addition of 1.9 million in 2020.

Next we will continue to evolve expanding software to customers including acting as a marketplace. Finally, Bitz our digital wallet was launched in September 2020 and already has 218,000 customers. We expect to grow quickly in 2021, we have ambitious plan for Bitz, which offers customer a product complementary to the of next and Bradesco.

Moving to Slide 22. ESG something we take very seriously in Bradesco, place initiatives as a priority. And this has positively reflected in our performance in the various ESG indexes, as you may see. For this, the performed above average in the main national international ESG indexes and ratings. We had the best performance among Brazil banks and the fifth best position among more than 250 banks worldwide, in the Dow Jones Sustainability Index.

We have also made progress at MSCI and CDP, being among the leaders in these assessments. We are aligning reported practice and results following international frameworks.

Going on, on Slide 23, you can see that in 2020, we had several important initiatives in the field of ESG. We made the largest issues on ESG bonds by Brazilian Private Bank in 2020. A 100% of our operations are already supplied with renewable energy, making us one of the first major financial institutions in the whole world to complete their energy transition.

We are the first major Brazilian bank to announce the neutralization of carbon emission scopes 1, 2 and 3, which includes indirect emissions. We participate in PCA at a global collaboration program of financial institutions to develop methodologies for measuring and reporting greenhouse emissions in loans and investments. In addition, we participate with other large private banks in the Amazon Plan a very important program that we have started previously.

Moving now to the Slide 24, final one. We are returning with the formal guidance for 2021. Despite the worsening of the pandemic at the moment an increase of restrictions, our scenario envisage a more moderate impact on the economy, which even so is growing 3.6%. So, if you comfortable in providing the guidance. In general, the guidance maintains consistent with the guidelines for 2021 that represented in the disclosure of the third quarter.

We expect the growth of the loan portfolio between 9% and 13%. Decline portion shall grow between 2% and 6%, the fee income shall grow between 1% and 5%, our costs shall be between minus 5 and minus 1%. The insurance line, which includes the operating and financial income shall have a growth between 2% and 6%. We expect expenses with extended ALL to be between BRL14 and BRL17 billion. As a compliment, we can say that we expect a slightly lower market portion for the NII in 2021, then in 2020. For the income tax rate, we suggest something the range between 32% and 34%.

And that's it. Thank you very much for attention. And we move now to the Q&A session.

Questions And Answers

Operator

(Question And Answer)

(Operator Instructions) Our first questions coming from Mario Pierry of Bank of America. Mario, your line is open. You can proceed.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay, thank you very much. Good afternoon, everybody and congratulations on the excellent results. I have two questions and I wanted to focus one on your fee income guidance, right, of 1% to 5%. It just seems too conservative to us considering that you have easy comps, right? In 2020, your fees were down like 3%. You're forecasting strong volume growth of more than 10% on average. You're introducing a bunch of new products as you highlighted. So, I wanted to get then a little bit more or better understanding why is the growth (inaudible) and if you can break down between the major lines, if you talk about cards, checking accounts, asset management and loans, that'll be helpful.

And then my second question is related to your branches. As you showed on Slide 15, you reduced to almost 1,100 branches in the last one year. That's 25% of your branch network. So I wanted to understand what happened to your NPS score during this period. What do you think is the right size of your branch network? So how much more do you think you can reduce? And also related to the branches, right, if you do a simple math here, one year ago about 50% of your distribution network was through branches, today is about

40%. So I was trying to understand also that does this have an impact on your revenue generation? Does it impact your -- especially your insurance operations? Thank you.

A - Leandro Miranda {BIO 21476649 <GO>}

Hi, Mario. Leandro speaking. Well, basically regarding to the guidance of fees from 1% to 5%, you are right, it's pretty much conservative, but we are living in a world with the second wave of COVID, we do not know how much the economy will suffer from that. We do expect to have a GDP growth of 3.5% and an increase in competition. So, we believe that if you take a look at the mid of the guidance, 3% shall be something that is very doable.

Regarding to branches, at least 300 branches we shall close or transform this year, but we are still in advanced studies to see how much we can go beyond that. Our clients have been using more and more digital channels and we can see that the transformation at least of branches can be a very good way to reduce costs due to security reasons. We do not need three security guards there and we do not need to transport money from one site to the other. And those branches shall become more and more business offices than anything else.

The digital channels therefore have been a very good replacement of the branches as a way to make business. The NPS continue to be growing and we believe that our new initiative to have the customer in the center of our attention shall make this NPS to continue grow more and more.

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

Let me just complement some points. You asked about the growth in volumes. This is something that not necessarily has in loan volumes, not necessarily has direct strong correlation with this. I remind you that the fees for private operations is part of the credit operation line. That is one of the -- one of our fees, certainly doesn't represent the bulk of the fees. We think credit cards will do very well. We should have a positive performance in checking account fees, but certainly it's not a very strong growth in this line. Mostly driven by the increasing number of accounts we had over the last few years. They -- and probably we will -- and we will continue to have.

In the asset management, basically, we are doing a very good job in terms of changing the mix. We think the effect will appear soon. But especially in the first half of next year, we still have on a comparable basis -- comparative basis, the effect on the fixed income funds that actually had a reduction in management fees and resources in the first half to anyone. In terms of branches, basically we can say that most of what is going to happen in 2021 going to be transformation of branches in business units. We can say some 300 branches in 2021. We don't know the timing for that but up to 100 branches could be definitely --

A - Unidentified Speaker

(inaudible) and 100.

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

Yes. And 100 branches could be closed.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. Thank you. Just then to expand a little bit on the fees. Like when I mentioned you talking about loan growth of 10%, it means that you expect activity to go back up in Brazil. When we look at your GDP forecast about 3.5% and we are talking about inflation again another 3.5%, 4%, we're talking about nominal growth of 7.5%. And then when we look at your fees, it's growing half of nominal GDP. So, that's why it was a bit surprising to me, it just seems too conservative. I think what you mentioned here credit card should do well, checking accounts okay, but maybe the pressure is more on the asset management line. Is that right?

A - Leandro Miranda {BIO 21476649 <GO>}

Mario, we hope you are right. We hope you are right that is too conservative. We never know, we shall expect competition and that's the number that we feel comfortable to indicate to the rest of the industry with a lot of responsibility.

A - Unidentified Speaker

Yes, and if you remind, it's pretty much in line with our speech since the third quarter when we gave the guidance.

Q - Mario Pierry {BIO 1505554 <GO>}

Right. And my final follow-up question is on the importance of your branch network for the sale of insurance. Is there -- should there be a big correlation between the number of branches and insurance revenues? Thank you.

A - Leandro Miranda {BIO 21476649 <GO>}

Well, as you may be aware, we have been expanding our channels in order to distribute insurance. Next, for instance, is a very good example. Next has no branch and is more and more distributing insurance plans. So as we transform those branches into rep offices, such as Octavio has mentioned previously, we shall expect the number of insurance policies to grow. So we are centering our efforts on the client and we wanted our managers regardless of where they are to be focused more and more on client's needs, and we do believe that insurance is something extremely important to our client base as a whole and shall be back even stronger in 2021. So we do not see the situation being jeopardized by the closure of branches, but on the other hand we see it increasing as we transform it into rep offices. They will be more focused.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. Thank you very much and congratulations again.

A - Leandro Miranda {BIO 21476649 <GO>}

Thank you, Mario. Take care.

Operator

Our next question is coming from Morgan -- from Jorge Kuri from Morgan Stanley. Jorge, your line is open, you can proceed.

Q - Jorge Kuri {BIO 3937764 <GO>}

Thank you. Good afternoon, everyone. And hope everyone is doing well and congrats on the numbers. Two questions if I may. The first one on your operating expense guidance minus 5 to minus 1. Evidently, all of these guidance items that's where you have most control of. And the range seems quite high minus 1 to minus 5. What are the assumptions for you on both sides of that guidance? So, how do you get to minus 5? What are the things that you don't know for sure today that could potentially happen to get to minus 5, and other way around on the minus 1? So as the year goes by will we able to understand, whether you're getting closer to one or the other end of the guidance?

The second question is on loan book. In 2020 you grew 10% and I guess this is similar to the previous question. Loan book you grew 10% in 2020 and your guidance for this year, it's not that different 9% to 13%, so the midpoint is around that. Considering that the economy, hopefully, will be in a completely different dynamic this year growing 4%, 5% maybe versus shrinking 4%, 5% last year, what holding that expansion of credit this year? Why wouldn't it be the same as last year? Why wouldn't you have this like significantly easier comps to grow the credit this year more? Thank you.

A - Leandro Miranda {BIO 21476649 <GO>}

Hi, Jorge. Leandro speaking. Well, basically regarding to our expenses as a whole, we continued to reduce them. We are confident that this is not something that you make on a one shot. It's a process. It's a cultural matter. This is our first priority. So we're going to keep on reducing them as much as we can, as much as technology allow us to do so. The transformation of the habits of our clients into getting more and more digital has helped us to close and as well as transform the physical branches into rep offices or to business units and therefore, it's allowed us to reduce costs.

Octavio was previously mentioning that one-third of our physical branch cost is regarding -- is related to security. So by the time that we transform them into units, you do not need this extra cost anymore and we are going to keep on doing that even further. We are still getting to more detail on a new plan to transform our branches.

We also shall benefit from the reduction of branches and personnel that we have than last year. So basically as we had provisions for that, they shall be reflected on our monthly expenses. So we believe that we have room to do that. We do not believe that minus 1 to minus 5 or 1% to 5% reduction is challenging. It's according to our pace when we look at our current figures.

And the loan book going from 9% to 13%, that is pretty much 11% in the mid of the guidance, although it is slightly above the expanded loan portfolio that we have in 2020 and although we have an economy shot, that shall grow by 3.5%. Well, basically, it's still an economy recovery. It's a serious second wave there. There is still a lot of tail coming from the portfolio for next year. So we believe it's a decent guidance and again we hope you are right and the portfolio shall grow even more.

The point here is that, we should be able to grow the portfolio even bigger if we were taking additional risk, but we want to be -- keep -- we want to keep the conservativeness that we have so far. So we want to reduce costs, have a very healthy portfolio. So we shall have less costs and les provisions. That's our focus by now. So we do not want to accelerate the growth that much and we prefer to have an excellent mix in terms of NIM.

Q - Jorge Kuri {BIO 3937764 <GO>}

All right. Thank you. So just to make sure I understood the question about expenses. So ultimately it's really about the velocity at which you close or transform branches. If we see that in the first half of the year you've already gone through those 300 branches, then the likelihood you get to the minus 5 increases. Is that right? Is that --

A - Leandro Miranda {BIO 21476649 <GO>}

That's correct. A significant part of this come from the branch transformation, but not only this. We are always renegotiating the contracts with our suppliers. We are reducing travels. It's a cultural matter. We are reducing rentals because of the IGP-M that came very high last year and still not in a very good level for us. So we are always revisiting this matter and we see that there is plenty of room to do it. But it takes time, you cannot -- you're not able to renegotiate and to make all the transformations, all the closures that you wish at once. So it takes time.

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

Jorge, only a complement on this OpEx question. Remind you something that Leandro said, we reduced 7% of the staff in the fourth quarter. So basically this 7% reduction in -- on something that is roughly half of the costs, will already lead us to a very good reduction in expenses in 2021.

We also closed and transformed something like 900 branches in the second half 2020 with some concentration in the fourth quarter. This also adds a few percentage points in this reduction in expenses. As we mentioned, we expect to transform 300 branches, we have a benefit of roughly one-third of the cost of our regional branch when we downsize it to a point of service or a business unit. We should close 100. So this is something that will happen. The transformation probably in the first half, the closures more throughout the year.

The -- on the negative side, there's the salary adjustment for the staff that should happen only in September, where inflation probably will be a little bit -- will be higher than the one we had last year, maybe around 3.5% or so. I think that these are the drivers. I think that's how we get this minus 1 to minus 5 and we think the mid of this range, that is our budget, is pretty much achievable.

Q - Jorge Kuri {BIO 3937764 <GO>}

Great. Thanks, Leandro. Thanks Carlos. Be well, thank you.

A - Leandro Miranda {BIO 21476649 <GO>}

Take care, Jorge.

Operator

Our next question is coming from Geoffrey Elliott, Autonomous. Geoffrey, your line is open, you may proceed.

Q - Geoffrey Elliott {BIO 15944940 <GO>}

Hello. Thank you for taking the question. There's been a lot of capital coming into the digital banks over the last few months. Nubank obviously completed the (inaudible) pretty recently but also bank go into SC 6[ph]. The number of others all raising equity. What do you think that does for the competitive environment and how is the behavior of the digital bank shifting and how you're going to respond to that?

A - Leandro Miranda {BIO 21476649 <GO>}

Well, basically -- well, first of all, thank you very much for your question, Geoffrey. Leandro speaking. I mean we have been transforming ourselves deeply into a digital bank. We have three pillars to transform the commerce bank thing to help to explore more and more our native digital bank and the open banking itself. So we do not see fintechs as major competitors. We see them as someone that is accelerating the environment in which we are, it's just accelerating a trend of investment in digitalization. And we see them as very often as partners.

We have seen that we have been able to grow our base of clients in Next and especially in Bradesco, and we do not expect to see Nubank, as you have pointed out, as someone that is going to be just driving out of here. You have to consider that most of those clients they have accounts in multiple banks and what is important to us is to be their principal -- their main bank. So principality is something extremely important in this business and being a full bank with all the services, knowing our clients very well, using AI, using all the information we have to provide them with the best products that they have especially (Technical Difficulty) their financing needs is a unique competitive advantage that we have and that has been reflected in our financial statements in our results. They have been there for a couple of years and therefore we have been able to thrive throughout this process.

Q - Geoffrey Elliott {BIO 15944940 <GO>}

Great. Thank you very much.

A - Leandro Miranda {BIO 21476649 <GO>}

Thank you. Have a nice day. Well, gentlemen, I would like to thank you all for your time and wish you a healthy and great week. Take care.

Operator

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