Q3 2020 Earnings Call

Company Participants

- Carlos Firetti, Market Relations Director and Head of Investor Relations
- Leandro Miranda, Executive Director and Investor Relations Officer

Other Participants

- Geoff Elliott, Analyst
- Mario Pierry, Analyst
- Unidentified Participant

Presentation

Operator

Ladies and gentlemen, thank you for waiting. We would like to welcome everyone to Bradesco's Third Quarter 2020 Earnings Conference Call. This call is being broadcasted simultaneously through the Internet in the Investor Relations website banco.bradesco/ir-en. In that address, you can also find the presentation available for download. We inform that all participants will only be able to listen to the conference call during the company's presentation. After the presentation there will be a question and answer session when further instructions will be given. (Operator Instructions)

Before proceeding let me mention that forward-looking statements are based on the beliefs and assumptions of Banco Bradesco's management and on information currently available to 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, good afternoon, everybody. Welcome to our conference call. We have today, with us, our CEO, Octavio de Lazari; our Executive Vice President and CFO, Andre Cano; the CEO of Bradesco Seguros, Vinicius Albernaz; and Leandro Miranda, Executive Director and Investor Relations Officer. For starting the presentation, I turn the floor to Leandro.

Leandro Miranda {BIO 21476649 <GO>}

Greetings everyone. We are pleased to welcome you to our third quarter's earning release conference call. Throughout the third quarter we have seen the evolution in the reopening of the economy, as well as a somewhat restricted returned of the various day by day activities in a number of regions in Brazil.

At Bradesco practically all of us have remained working from home. We had about 95% of our employees from departments and affiliates working remotely. And as we had stated in the previous quarter, our work has gone very well and we have seen a high level of productivity. We have prioritized the health of our personnel clients as our top priority in all of our decisions. We have made great strides in the nearly six months since the onset of the pandemic. We have been through use of new solutions at an unbelievable speed that made our digital services to clients even more compliance.

In addition, we have been focused on providing our clients with financial solutions in order to help them navigate their way through the crisis. The search for loan extension has almost vanishes. In April we extend the BRL32 billion in September only BRL1 billion. We will bring more details ahead. We intensified the restructure of loans in order to provide our customers with loans suited to their payment capacity, and we are also offering a large volume of new credit lines related to emergency programs.

We see a continued recovery in the economy for the remainder of third quarter with a pickup in formal employment, which would indicate an acceleration in GDP. We expect a 4.5% decline for 2020, but this is a far better situation than what we saw (Technical Difficulty) in the first quarter disclosure. Despite anticipated reduction, the emergence aid interest rates will remain low and loan we wanted to retain the economy. Furthermore, we see exports and agricultural play a beneficial role in the performance of the economy.

We believe that the economy will fully reopen in 2021 and this will help into recovery. There was a significant amount of money, put away into savings during the pandemic, which also have helped our collecting of deposits. We believe that this mitigates the risk of deferral and we were partially offset the end of the emergency aids. The emergency aid paid to families without income was essential.

But we need to recognize that Brazil has spent more on this pandemic than any other emerging company -- emerging country. As such managing public accounts will be crucial to ensure that the recovery in 2021 is not disruptive.

On page 3, we now turn to the results. The net income in the third quarter was BRL5 billion, an increase of nearly 30% on the quarter, in an annual comparison. But it's still 23% below the same period of 2019.

ROE in the quarter was 15.2% a positive trend compared to 11.9% in the second quarter, but it's still well below the pre-pandemic level. We believe that our ROE will continue to improve, assuming that we do not have any significant worsen in the course of the pandemic and the economy continues on the path of the recovery.

Our loan portfolio rose by 0.5% in the quarter with good performance by SMEs and individual borrowers and a reduction in large companies. Tier 1 Capital show the solid growth of 40 bps reaching 12.9% closely approaching the fourth quarter of 2019 level.

Moving on to page 4. We present the performance of some income and asset lines. We'd like to highlight the evolution of the margin with a growth of 3.5% year-on-year, despite the reduction in interest rate on overdrafts. Compared to the previous quarter, we saw a reduction of 8.4% as the net interest income in the second quarter was quite strong, due to the margin with market, which was above average. It's also worth noting that loan loss provision expenses decreased by BRL3.3 billion in the quarter. We drill down on these lines in the upcoming slides.

On page 5, we address a little bit more on funding loans. We show that our funding continue to strongly progress. We had a 3.6% growth in total funds raised by -- from clients in the quarter and a 35% growth over the last 12 months. Our loan portfolio new accounts now accounts for 81% of total funding, a very comfortable position. This positive performance in funding can be explained by the flight to quality of clients to Bradesco deposits at the beginning of the pandemic, and also the integration of investments and DI funds to deposits.

We will now move on to page 6. The loan portfolio grew 0.5% in the quarter, and 11.7% over the last 12 months. When we look at the composition of growth we see a strong performance of the SME line driven by the lines of emergency aid and a solid growth in individuals as well, where we grew in practically all lines except personal loans as we adjusted our credit models and the risk to be taken. The rotating lines, personal check and credit cards have also been used less and less.

The large company's portfolio narrowed significantly this quarter with clients repaying part of the excess working capital they took at the start of the pandemic.

On page 7, we point out that Bradesco has disbursed BRL19.3 billion in lines of emergency program squeezed by the government BNDES, the Central Bank of Brazil. The lines that concentrate the most volumes are the FGI, the investment guarantee funds and the line is that use compulsory from saving accounts as funding.

Moving on to page 8. Regarding to provision for credit risk, we have continue to bolster our provisioning lower levels this quarter. We still naturally making provisions well above what they were pre-pandemic, but reducing down to the lowest level of the year. The calculation for provisioning requirements is based on our modeling of our expected loss. Our expense with the expanded loan loss provision reached BRL5.6 billion rise in the quarter or 3.4% of the loan portfolio. Over the nine months of 2020 we totaled BRL21.2 billion the provision expenses compared to BRL14.4 billion in 2019.

The total provisions on our balance sheets reaches BRL44.9 billion or 9.2% of the loan portfolio, a clear sign of the strength insufficient even considering our diverse scenarios.

It is true that we maintain a conservative approach, but it's fair to say that it current trends are maintained. We may show a further reduction in provision expense in the fourth quarter and we hope to have no additional provisions each at all in 2021 as we did in 2019.

We now move to page 9. We continue to show improvements in the 90-day delinquency indicator as well as stability in the short-term delinquencies. We are seeing most of our loan portfolio, performing well in terms of quality. We acknowledge that NPL indicators are affected by a low renegotiations. We now believe that the peak of defaults in the current crisis will occur in the second or third quarter 2021.

Our expectations as to loan quality have improved greatly, which is why we believe that the peak may be lower than the one seen in the 2015 and 2016 crisis. This depends, of course on current expectations coming through and that no further economic slowdowns occur.

On page 10, we show the NPL creation. We have a low NPL formation impacted also by loan extensions and renegotiations, but with good news as we are going to present ahead.

Page 11 illustrates the coverage ratio. With the further decline in the NPL ratio and growth in the sort of provisions were 90-day NPL coverage ratio continue to grow. Considering the breakdown by segment, we saw an expansion of coverage in all of them with the exception of the portfolio of large companies. Coverage remains virtually stable in a -- expanded coverage concept where we include the portfolio renegotiated a 90-day NPL.

Now on page 12 regarding to extended portfolio, we'd like to emphasize transparency. So we present some very important new information for you which shows a really good view of the extremely positive performance of extended loans, way better than what we could anticipate in the beginning of the pandemic.

The total extension in the second quarter came to BRL61 billion, of that amount BRL39 billion was back to normal on the scheduled payments after the grace period ended. BRL21 billion was still within grace period. And those in arrears amounted to only BRL1 billion. At the end of September out of the BRL72.7 billion of extended loans BRL53.3 billion had already returned to normal in scheduled payments, a BRL10.3 billion was still in grace period and BRL1.1 billion in arrears, equivalent to 1.63%. We will have another BRL9.2 billion coming out of the grace period in October, BRL6.7 billion in November and only BRL2.4 billion December onwards.

With this information we have available today we are confident that the loan quality of our clients are still coming out of their grace period will also be good. We expect the portfolio that is in grace period also to have the same behavior of the portfolio that is started to be repay. And we are very comfortable with that on the current basis.

On page 13 in accordance with our strategy of supporting clients during the challenging time, our renegotiated loan portfolio grew by BRL4 billion in the quarter, mainly due to customers that prefer to renegotiate their loans with longer tenure instead of extending the due dates. The renegotiated portfolio has a high level of provisions, with provision accounting for 61.7% of the loan portfolio.

On page 14 the total net interest income showed an 8.4% drop in the quarter. This was due primarily to the reduction of the market portion which had been well above the average of the second quarter, and also the reduction in declined portion due to the still low use of rotating lines companies as well as individuals and the growth lines from emergence programs.

On an annual comparison NII grew by 3.5% with a 2.3% increase in the client portion, despite the cap in the overdraft that began in January 2020, we see the market portion remaining a good performance of over the next few quarters. The client portion is expected to react to volume growth with a more favorable mix.

We will now move on to page 15. Fees rebounded in the quarter due to the improvement in the economy compared to second quarter. We still see a negative quarterly performance to the line of loan operations impacted by the reduction in loan originations and portfolios with contracting fees.

In the annual comparison with positive highlight the investment bank and brokerage activities. Despite the recovery in the quarter significant lines such as credit cards and asset management are still decreasing. In credit cards the reduction occurs due to the drop in the volume of transactions. In asset management due to the reduction of the management fees of fixed income funds as well as a migration of resources from these funds to deposits.

This effect obscures the solid improvement we have seen the mix with the growth in equity funds, multi-market funds, fund of funds and (inaudible) funds by independent managers.

Now we move to page 16 where we are going to discuss operating expenses. We continue to deliver an outstanding cost performance and we do expect that it continues this way on a monthly basis. In the annual comparison, we can see the size of the cost adjustments. We saw a 7.9% drop in administrative expenses for the quarter alone and 3.3% over nine months.

Personnel expenses declined (Technical Difficulty) 13 -- by 3% in the quarter and 7.6% over nine months. Accounting for total expenses, including others we reported a 5.7% decrease in the quarter comparison, and a 3.9% decrease over nine months. We are in the process of making a major cost adjustments within the bank right now which should allow for a reduction in cost in nominal terms for 2020, and in also 2021.

In order to address the expected cost of implementing these adjustments we carried out a restructuring on recurrent provisions of BRL879 million in the quarter to help us to change our cost structure.

On page 17 you may see information on the optimization of the physical presence. Basically, we have a number of adjustments in our branch network. We are already performing on the essential adjustments since the beginning of the year. But this adjustment was intensified by the acceleration of client digitalization trends and the reduction in the use of branch tellers[ph]. We'll be reducing our total number of branches by 1,100 in 2020, 700 of which will be converted to satellites or business units and the 400 will be definitely closed. We estimate that we can attain cost reductions of around 30% to 40% to the conversions into downsized formats. So far we have reduced 683 branches, a 163 were closed and 520 were converted.

Now moving to page 18. We show a series of business at Bradesco that we believe deserve to be highlighted due to their strategic importance. Next, our native digital bank we reached the mark of 3.2 million customers. Agora continue to expand its base reaching 490,000 customers, this year we have already added 150,000 clients to the base. Launched this quarter, Bitz our digital portfolio complements our product and service we are offering, and has just acquired Dindin.

In addition, we highlight a series of business in specialist bank such as Losango, Bradesco Financiamentos and Consorcios. To complete in the next few days we will complete the acquisition of BAC, and BFI for which we have already obtained all regulatory approvals.

Finally, and also recently announced an agreement with JPMorgan to transfer its Private Banking activities in Brazil to Bradesco. And with that we bring the excellent team of bankers, as well as BRL21 billion in assets under management.

Page 19, we present our performance insurance which continues to be adversely impacted by the financial result which is a still constrained by (Technical Difficulty) of low interest rates, low IPCA and elevated general mark price index and that affects our ALM heavily.

On the other hand we saw a reduction in the quarter in the operating income of insurance due to increased claims it's natural due to the recovery of the economy. Despite this, we saw a 3.8% growth over last year.

The ratio of claims grew primarily because of life insurance in which we decided to honor the coverage of case related to pandemics for humanitarian reasons even though the policies do not provide coverage for this. There was an increase in claims for health insurance, though it remained at levels below those in the same period of 2019. 84.6% in the third quarter of 2020 versus 87.9% in the third quarter of 2019.

In this quarter, we made BRL151 million in provisions for the adverse scenario amounting to BRL1,259 million in the first nine months of 2020 and despite of the current scenario we have been able to keep the revenues at the same level of 2019.

Now we turn to page 20. The Bank's capital ratio continue to increase. We saw an increase of 30 bps in the common equity and 40 bps in Q1 over the quarter. The main source of capital generation was the retained income in the quarter.

We now move to our last slide on page 21. We prefer not to return on official guidance for 2020. But as we did in the previous quarter we bring some guidance on how the rest of the year should behave. We believe that our client portfolio will grow a little more than the system in 2020. NII which we previously believed would grow in line with the portfolio should actually grow a little less, but it should be noted that the credit portfolio will grow more than expected. The scale shall be the answer here.

Fees will continue to be pressured by the economic scenario, that should show seasonal growth in fourth quarter. The assurance[ph] of results will continue to be pressured by lower financial result, as a result of low interest rates and the behavior of inflation rates. As we have shown, we are maintaining an important structural cost adjusted in the bank. As we said in the last quarter, we expected nominal cost dropped -- to drop in 2020 and 2021.

In addition, we will continue to look for opportunities for the future. Regarding to loan loss provision expenses, we expect an additional reduction in fourth quarter and also lower numbers 2021 compared to 2020. For 2021 we are still in the process of completing our budget, but considering that you do not have a significant worsening of the pandemic, we now have a much more constructive deal.

GDP is expected to grow by 3.5% in 2021, and we are confident that it can, we can reach results such as the ones of 2019 with better margins with clients, better fees results and keep continuing our result in expenses on a nominal basis.

And then before concluding, I would like to invite you to Bradesco day which will take place on a virtual basis this year, on November 10th. You can find the details on the IR website.

Thank you very much for your attention, and now we move on to the questions-and-answer section.

Questions And Answers

Operator

(Operator Instructions) Our first question comes from Mr. Mario Pierry of Bank of America.

Q - Mario Pierry {BIO 1505554 <GO>}

Thank you, and good afternoon everybody. Congratulations on your results. Let me ask you two questions. The first one is with regards to net interest margin outlook. As you mentioned that you expect NII to grow less than your loan book next year. But I was wondering what is the impact of a steep yield curve in Brazil? It seems like the yield curve has been steepening, what would happen to your margins, if we see a further steepening of the curve?

Also my understanding is that your loan mix should be improving going forward. So I'm a bit surprised that you basically guiding for net interest margin pressure. So, (Multiple Speakers) Yeah, go ahead.

A - Leandro Miranda {BIO 21476649 <GO>}

This is Leandro speaking. Thank you very much for your question. You're pretty much right. I mean I was refer -- I was making reference to the fourth quarter. In 2021 due to increasing the interest rates, recovery of the economy we do expect a better margin as we have just point out. So those are very important items in our NII, and we share your vision. That's how we see it as well. I was just making reference to the last quarter.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay, perfect. That's clear. So let me ask you the second question then. When you mentioned, I think you mentioned that you expect provision charges to fall to the levels seen in 2019. Are you talking in nominal terms, or as a percentage of the loan book? Because your loan book is probably is about 10% higher, right now than it was 2019. So if you could clarify that.

A - Leandro Miranda {BIO 21476649 <GO>}

Yeah, basically we were making reference to the additional provisions. So we do not intend to make additional provisions in 2021 as we did not in 2019. But of course, you are right, as a portfolio grow we shall have opposing[ph] provisions for that.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. And so a follow up to my asset quality question. When you mentioned here on your slides right that the performance of the extended portfolio has been better than you expected. What do you think explains that clearly as you mentioned, right, the economy is doing better than everyone expected at the beginning of the year, but part of that is probably related to all of the government support, that has been provided. Do you think there is something more structural going on, also that this portfolio is performing better than you anticipated?

A - Leandro Miranda {BIO 21476649 <GO>}

Well, basically you have point out two of the three main reasons. Definitely, we were much more conservative in the beginning of the second quarter as our CEO has point out earlier in the morning at that time we had nearly zero visibility of what could happen this year. And we are by nature, very conservative. Therefore the economy recovered much, much better and faster than we expected.

So economy recovery was definitely the main reason. The government support, as well as ours, we landed with much more resource than was released from our (inaudible). And the way the bank adjusted itself to support clients as a whole was basic to have such a recovery in the portfolio.

And the third reason for that is that we put a lot of capital to work align it with the other banks. So the society as a whole benefit from liquidity on an organized fashion and we have seen also that the big companies were very cautious. They raised a lot of money with the banks in the beginning of the second quarter and it also helped to have a healthy chain of suppliers and clients benefited from that.

A - Carlos Firetti {BIO 2489005 <GO>}

I might just add one more. As you know we had a big crisis in '15, '16 then all the volatility in the election '18. So basically[ph] to our loan growth before this crisis we are not coming from a period of a boom in credit. Actually the year where we really accelerate that was at the end at second half of '19, we were accelerating a little bit more in the first quarter '20. But the clients we have there are very good. Basically the loan to value in the operations is relatively low, basically less than 50% in mortgage and car loans is less than 60%.

So basically, even in the SME space, we were not booming credit before this may happen. So really have very good clients there.

So I think that also in addition to what Leandro said helps this good performance, and the relief we will finish, but as our economy this point there was a big accumulation of savings in Brazil, probably not necessarily the people that will stop receiving the benefits are going to be the same they faced, but actually macroeconomically this is also a cushion that probably we will help to keep the economy going for a little bit more and also help on the credit card side.

Q - Mario Pierry {BIO 1505554 <GO>}

That's very clear, Felix and Leandro. Thank you very much.

A - Leandro Miranda {BIO 21476649 <GO>}

Thank you, Mario.

Operator

(Operator Instructions)

A - Carlos Firetti {BIO 2489005 <GO>}

Yeah, go ahead.

Operator

Our next question is coming from Mr. Geoff Elliott.

Q - Geoff Elliott {BIO 15944940 <GO>}

Hello. It's Geoff Elliott from Autonomous. Two kind of -- two questions if I could. The first one is, can you tell us when you expect to overdraft balances to reach that trough. Is that at the end of the year when corona voucher payments expire?

And then secondly, can you help quantify the savings that you're typically realizing either by closing a branch or by converting a branch to one of these lighter units that doesn't have the full branch infrastructure? Thank you.

A - Leandro Miranda {BIO 21476649 <GO>}

Hi, Jeff. Leandro speaking.

Q - Geoff Elliott {BIO 15944940 <GO>}

Hi.

A - Leandro Miranda {BIO 21476649 <GO>}

Basically -- Hi, there. We do expect to reach a peak in our delinquency in the second or third quarter of 2021, but --

Q - Geoff Elliott {BIO 15944940 <GO>}

Sorry the question is when -- sorry, maybe I wasn't clear on the question. The question was when are the overdraft balances going to reach a trough? So it wasn't about delinquencies. It was about the balances, because obviously that's one of the factors that is fed into the pressure on net interest income.

A - Carlos Firetti {BIO 2489005 <GO>}

Probably we are -- will need to right now. And as the economy is returning to kind of a normal pace, we believe that may be already in the first quarter next year we could start to see some improvement.

A - Leandro Miranda {BIO 21476649 <GO>}

Okay. Let's move to your second question regarding to how much savings we shall have when we close the branch. Well, it varies from 30% to 40%, pretty much we have around the 30% relieve, when we transformed the branch into our business units. Because you have no security costs is there. So our population should consider from 30% to 40%.

A - Carlos Firetti {BIO 2489005 <GO>}

Yeah, in terms of the impact in costs, again we are not releasing a formal guidance on the full amount of the savings, but you can as we said this is the basis for allowing us to have a nominal reduction in costs again next year on top of the very strong reduction we are ready had this year.

Q - Geoff Elliott {BIO 15944940 <GO>}

Okay. But can you give us any sense of how many million reals you save per year when you close down a branch?

A - Carlos Firetti {BIO 2489005 <GO>}

Yeah. At this moment, we prefer not, but it's a sizable reduction that as I said will allow us to reduce cost nominally after a big reduction this year.

Q - Geoff Elliott {BIO 15944940 <GO>}

Got it. Thanks very much.

A - Leandro Miranda {BIO 21476649 <GO>}

Thanks, Geoff.

Operator

Our next question is coming from Mr. Mario Pierry of Bank of America.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay, thanks. Since there were no other questions, let me ask a couple of other questions that I had. First one is related also to these charges that you took of about BRL800 million for the -- to adjust your cost base. Is this primarily severance charges, or does it relate to cost of like transforming this banks into smaller branches?

And I was wondering, because you have had already a sizable reduction on your branch base so far. So I was wondering if there were any extra charges related to this closings that you had already. Do you have any of those expenses embedded in your nine months figure.

And then the second question was related to fee income generation. And if you can just give us what is your -- what do you think is the impact of open banking, the impact of tax on your ability to grow fees in the coming years?

A - Leandro Miranda {BIO 21476649 <GO>}

Okay, Mario. Well, regarding to the extraordinary provisions that we are making of BRL800 million to the cost restructuring pretty much it's all there regarding to all the expenses related to make them close the door, transform it to a business unit and it just applies from October on. So we expect to use it in the fourth quarter.

And regarding to fee income generation, it pretty much depends on the interest rates, and how it's going to be the dynamics of the market next year. We expect as the inflation is returning to higher levels, and the economy is expected to increase speeds that we shall have higher interest rates as the future fixed rating markets are (inaudible) pointing out. Therefore we shall benefit from this, and this could impact the asset management market as well, and the underwriting market.

Regarding to overdraft, I guess it's pretty much done. We do not expect any reduction on that. So we shall have some recovery. And of course with the end of pandemic, and recover of the economy, we shall get to normal related to our best history on the product that clients used to ask us.

So 2019 shall be a good proxy.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. Thank you. Just going back then, when I look here over the last 12 months, right. You have closed about 800 branches, and your employee base is down by about 4,000. Did you incur any extra charges in the last 12 months related to this closings and decline in employee base?

A - Leandro Miranda {BIO 21476649 <GO>}

We made some provisions -- that throughout the year and now we are going to expand it. So the idea is to spend the money on a cash basis to -- on the following month. But most of it will be expanded now in the fourth quarter.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay.

A - Leandro Miranda {BIO 21476649 <GO>}

The reason for that is that you remember that Octavio, our CEO in the end of the first quarter announced that we would reduce 400 branches. And now we are increasing this number. So we have to have additional provisions (inaudible) to that, that's the reason why we decided to make this additional BRL800 million.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. Thank you.

A - Leandro Miranda {BIO 21476649 <GO>}

Thank you, Mario.

Operator

Our next question is coming from (inaudible).

Q - Unidentified Participant

Hello. Can you hear me?

Operator

Yes.

A - Leandro Miranda {BIO 21476649 <GO>}

Yes, Marcos, yes we can.

Q - Unidentified Participant

Yeah. Thank you. Just can you -- apologies, I know you probably gone over this earlier -- in earlier periods but just, clarify the difference between the extended and renegotiated portfolio. The extended portfolio is just got an interest payment holiday. And you tacked on those month at the end whereas the restructured portfolio is something more fundamental.

Can you just clarify the difference between the two?

A - Carlos Firetti {BIO 2489005 <GO>}

Okay. Basically the renegotiated portfolio is something we have all is gone, that is basically when a client has a problem you reach a deal with the clients. Sometimes extending the maturity giving more time, making the loan longer, sometimes changing the terms and even renegotiating some times interest rate.

In the case, or if is a loan that is either written off some time to actually bringing the loan back to the balance sheet. This is what goes in the renegotiated portfolio. This is business as usual. What all banks do with clients that have problems at some point. The extended portfolio is something unique, is based on a regulation issued by the Central Bank in the beginning of the crisis in March, and basically we can do it only for clients that were not late before beginning of March.

And in this case it involves only grace periods. We did mostly for 60 days, if the client requested, we did it for another 60 days. We try to make it shorter to have kind of reference if the clients paying or not. So that's the difference. And basically we cannot do expansions for more than six months. We are doing much shorter than that. And that kind of the thing we will finish by the end of this year, even though the flow of new extensions kind of reduced a lot, now, it's almost zero.

Q - Unidentified Participant

And what is the -- and what percent of the -- and this is available for all servers[ph] correct for retailer SMEs include corporates?

A - Carlos Firetti {BIO 2489005 <GO>}

It doesn't include corporates. It includes two mid-size companies. Companies from up to BRL500 million per year. That's kind of up to, we go up to this kind of client. Most of it's individuals, it's small companies, but we have some in the mid-size companies. We disclose this number for instance in the -- I don't have for the third quarter right now, but for the second quarter we had BRL61 billion in extended loans. Mid-size companies made for something like BRL15 billion. So corporate we don't expect.

Q - Unidentified Participant

And I'm sorry, one final thing on this. And just the size of that loan book for the mid-size, if you take the total size of the mid-size, plus the individuals who were -- when this happen, what's the size of that loan book (inaudible)?

A - Carlos Firetti {BIO 2489005 <GO>}

The size of this extended book?

Q - Unidentified Participant

No, the total size. So you've got BRL72.5 billion, which had some kind of break -- to 60.4 have returned to normal, that BRL73.5 billion is on a base of what? Like there is BRL150 billion. I mean how many billions of your loan book took advantage of this at one point?

A - Leandro Miranda {BIO 21476649 <GO>}

No, no, the BRL74 billion is actually when we have in the presentation slides in page 12, basically as of October 23, we had BRL73 billion extending. This is the total that was extended at some point, BRL73 billion, that probably make something like 14% of the loan book give or take, but since then -- (Multiple Speakers)

Q - Unidentified Participant

14% of loan book that could take advantage of it, or 14% is total?

A - Carlos Firetti {BIO 2489005 <GO>}

Yeah. You know 14% of the total took advantage, but right now, out of the BRL73 billion, BRL60.4 billion have already returned to payment. Regular payment are not in default. They have already made the initial step payments after the grace period. What we have without a few in the grace period, and that should finish mostly by November is BRL11.7 billion that makes for only 3.7% of the loan book.

Q - Unidentified Participant

Right. Okay, perfect. Thank you.

A - Leandro Miranda {BIO 21476649 <GO>}

You're welcome.

Operator

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

A - Leandro Miranda {BIO 21476649 <GO>}

Well, I would like to once more thank you all for making the time to be with us. And now we finish the conference call. Have a great day. Bye.

Operator

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