Banrisul's 3Q20 Results Presentation

Conference Call – November 11, 2020

Operator:

Good morning, and thank you for standing by. Welcome to Banco do Estado do Rio Grande do Sul – Banrisul's audio conference call to discuss the results for the 3Q20. Here with us, we have the following executives: Claudio Coutinho Mendes, CEO; Irany Sant'Anna, VP; Mr. Marcus Staffen, CFO and IRO; Osvaldo Lobo, Credit Director; Alexandre Ponzi, IR Superintendent; and Werner Kohler, Accounting Superintendent.

We would like to inform you that this event is being recorded and all participants will be connected in listen-only mode during the Company's remarks. After that, we will start the Q&A session for analysts and investors exclusively, and then further instructions will be provided. Should you need assistance during the conference call, please request the help of an operator by dialing *0.

A replay facility of this event will be available right after it concludes for a period of seven days.

Before moving on, we would like to state that forward-looking statements made during this conference call concerning the Company's business perspectives, including financial and operating targets and projections, are based on beliefs and assumptions on the part of the Company's management, and also on information currently available. Forward-looking statements are no guarantee of performance. They involve risks, uncertainties, and assumptions as they refer to future events, and therefore depend on circumstances that may or may not materialize. Investors should have in mind that general economic conditions, industry conditions and other operating factors might affect the future performance of Banrisul, thus leading to results that will differ materially from those expressed in these forward-looking statements.

Now I would like to turn the conference over to Mr. Claudio Coutinho Mendes, Banco do Estado do Rio Grande do Sul's CEO, who will start the presentation. Please, Mr. Coutinho, you have the floor.

Cláudio Coutinho:

Thank you. Good morning, ladies and gentlemen. I am going to go through the earnings presentation on the 3Q20 and the 9M20.

We are going to start on slide two on the actions we have taken with COVID-19. This has been reported in the 2Q, but we will repeat all the actions we took to take care of our employees' health and also our clients and outsourced employees from the beginning of the pandemic. We started taking action on March 16 to prevent against COVID-19.

We had to adopt several rules that would take care of people's health. So the first action we took was to have all of our employees in the risk group working from home, and they have been since March 16, and they will probably continue until there is a vaccine or anything that can provide safety, so that people can go back to work in the office. We also hired medical assistants from Moinhos de Vento Hospital that helped us define protocols and all the procedures we need to follow during the pandemic.

So all procedures are discussed with the Moinhos de Vento Hospital, which is the national benchmark hospital, so that we have a medical, professional and scientific approach on how to prevent the disease. They also provide telemedicine services to our employees. So from the beginning of the pandemic, we have been operating with them.

We closed branches as any of them have cases of COVID-19. We followed the protocol. The branches are closed. Everyone is tested, and then it continues to work. So again, I will not go into details, but there is an entire procedure under the guidance of Moinhos de Vento Hospital, which provides us with the safety for our procedures and also the guidance on how to work at Banrisul.

Continuing with slide 3 on our credit relief programs. During the pandemic, there was a health emergency. As I said, we hired the consultancy from Moinhos de Vento, but we also had financial emergency systems. So some companies had some cash flow issues, and they required credit relief. And this came through the federal government and allowed them to continue to operate with their treasury guaranteed.

So we started working with Pronampe where we had around 28,000 contracts and R$892 million in credit. PESE was basically for payroll. We had nearly 2,500 contracts, which led to R$82 million. PEAC - FGI is a program in which the National Development Bank provides 80% of consumer loans at a prefixed rate.

So until November, we had nearly 1,500 contracts with a total of R$555 million. So these operations have been backed by the National Development Bank, by the Treasury, and they resulted in 31,000 operations and allowed our clients to have credit, and they did not have poor credit ratings, but we managed to use these clients from the federal government and the government guarantees to rescue or to provide them with some relief.

Let us continue now with slide 4, where we talk about the transformations at Banrisul. The mission for this new Board of Directors was basically to take Banrisul into a new transformation. The financial system is changing quickly.

Our competitors are changing quickly. And our mission is to go along with Banrisul, so that we can continue to be competitive in a new scenario, which is quite challenging. Among the actions we took are these: first, in terms of personnel, which is an important part of our strategy. We hired an international consulting company, Mercer, to help us with our transformation.

So we are transforming the Bank's human resources department and how we manage people. This is ongoing, and it will have as an output, new career plans, new career paths, a fixed and variable remuneration plan, bonuses. We are going to align our interests with our employees, and this is all going to be designed with Mercer, and they are going to bring to us the best practices and what we can do to improve our work based on the experience of other institutions.

They are international experts at this. So in whatever is possible in our scenario, of course, we are a publicly traded company, controlled by the state. So we are always going to try to align the interests between our shareholders and our employees, so that we can implement meritocracy.

Looking at these initiatives, we can also see that after the human resources department has been restructured, we are going to continue with our voluntary employment termination plan, and we are going to restructure the branch network. So in September, the program has concluded. The estimated costs of it for the Voluntary Employment Termination Plan will be around R$180 million, but the yearly savings that we will have will be around R$160 million a year.

Also in restructuring branches, it is important to adapt our network to a new competitive scenario. We are going to be talking about the digital initiatives we have been having. So of course, these agencies can be closed without creating any impact on our clients' services.

We are also going to be talking about ESG. Banrisul has a long tradition of supporting social programs in Rio Grande, and we have done that, especially with regard to clean energy recently. Finally, the last initiative that we launched was our innovation hub called BanriTech, which I will discuss soon, and it is very important too. Its aim is to have a better connection with entrepreneurs, innovative companies that can add value to our business.

So the next slide discusses BanriTech, slide 5. BanriTech is an initiative from Banrisul to create an ecosystem around the Bank to foster innovation. That is based on four pillars, which are acceleration, we have Tecnopuc with us. They are by reference, University for Technology in Rio Grande do Sul and in Brazil.

So they will be with us in the acceleration pillar. And we are also supporting the BNDES Angel's Fund. So this fund will be used to invest in start-ups and innovative companies in Rio Grande do Sul. And any company that have any missions that are close to Banrisul or that have some synergy. We also have some space with us, The Museum of Communications. It is within walking distance of our general office in Porto Alegre. So we are integrated to that.

And we are also going to have an education hub for mentorship and to provide programs for entrepreneurs, who have innovation. So this is an initiative besides our digital transformation, and we are also founding partners for the Caldeira Institute, another hub that connects innovative entrepreneurs to the innovation ecosystem. So we are there supporting them as well.

Continuing with slide 6, which discusses our ESG initiatives. As a reminder, we are signatory to the United Nations Global Compact since 2013, and we are also aligned with the sustainable development goals.

Social projects, this is just a sample. This is not a full list, but Banrisul has many social programs besides the ones listed here. I would highlight the Pescar program, which supports young people between 16 to 19 in a vulnerable situation, 340 young people have already gone through the program. We have the Seeds program, which distributes seeds to over 4,000 families in Rio Grande do Sul. We have the Rio Grande do Sul Youth Orchestra, Sports in Actions project. There are several actions that we are taking on the social side, which were very important for the state. And this is a part of the mission of the Bank to give back to society.

On sustainability, I would like to underscore a line that was recently created last year, which has been growing. In September 2019, it had 524 contracts. And now it is at nearly 3,000 contracts with R$135 million disbursed. And this is basically for the acquisition of photovoltaic systems, which allows smaller rural communities around Rio Grande do Sul to buy distributed power generation systems using solar panels. And this, of course, is completely clean. So it is growing significantly. And we believe that this is the way forward, to always use clean energy.

We are going to continue with slide seven on our redundancy plan and branch restructuring. As I mentioned, the Voluntary Employment Termination Plan involved 903 employees, many of them in IT, and they will stay throughout the next two years after December 2022, so that we have continuity in our IT processes. And the Bank's directors will allocate new professionals as the previous ones step out. So we will have a number of employees being terminated in the next years. Those who could be retired or who would be retired in the next two years are also included here.

In branch restructuring, the idea is to rationalize our physical service points. So far, we have closed nine branches, and we also transformed three of them into service stations. We also closed 24 service stations, and we transformed three of them into business rooms.

Basically, we started this in late 2019, early 2020, and from March, we started closing. We closed some branches in early March, but because of the pandemic, since there was a need to have contingencies and to deal with the emergencies in the months of March to May, we were focused on health, on protocols, on running our programs, we were busy with that. And then from July, we continued the process closing and looking into closing more branches. So this is an ongoing process. It is something that we are permanently assessing, and we will be closing branches. As soon as we have any decisions, we will communicate them to the market.

Continuing now with slide 8, the pandemic in a way accelerated our digital transformation, especially for clients. Clients that had already had access to digital communication channels started using them more because of the pandemic. Those who were not familiar with them, started learning how to use them.

And we got very impressive results. In the 9M20, we had 260 million accesses, a growth of 34% versus 2019 and 76% of transactions with the Bank were performed through digital banks. We also have a partnership with Visa, launching the BanriFAST bracelet, which is a wearable contactless credit card. So this is another innovation that we have had. So we had several changes with the digital channels, different ways of communicating. We have more products on our mobile banking app.

So one of our missions is to take a simpler experience for our clients. We want to simplify our lives to the most as they contact the financial sector. So this is an ongoing effort, which will not stop, and we are focused on this digital transformation completely.

Moving on with financial highlights. Our net income this quarter was around R$117.8 million. Our credit portfolio grew 4.6% in the last 12 months. This is on slide 9. Our payroll loans grew by nearly 9%. Funding grew by 13.7% in the last 12 months. Our provision index is at 7.8%, and our 90-day coverage ratio is at 260%. And we also have a comfortable Basel Index of 16.2%.

Continuing with slide 10 on profitability. Our net income was nearly R$118 million, so R$495 million in the 9M20. It is a drop in comparison to the 2Q20. Our ROAE is at 5.7% this quarter, and basically what caused this drop was provisions for labors or lawsuits. There were also other losses, and we had a loss in the market for government bonds. As you know, in the last month, there was a discount on government bonds. This was a fact that did not happen since 2002. So this affected our financial margins and impacted our results, too. We will go into this later on.

Continuing with slide 11 on our NII. The NII dropped 4.6% versus the 2Q, and 11% versus the 3Q19. If you look at the table this year, our NIM on profitable assets is around 15%, which is stable, but what affected our total NIM on profitable assets, first was our real estate portfolio. So the proportion between government bonds, real estate bonds and credit was more balanced towards government bonds. So there was that additional weight there.

Profitability is far below our credit portfolio. So that justifies the reduction we had in our NIM from 6.95% to 6.37%. This is our total NIM. So this is due to treasury NIM due to how the spread on government bonds was higher. There was a discount on them. So basically, this is what explains the reduction in our NIM.

Continuing on slide 12, funding. Banrisul continues to have a very positive cost of funding. It is below the CDI index. It is also diversified. It is growing. It grew by 13.7% in the last 12 months. And basically, our funding structure continues very similar to what it was like in September 2019. 68% is time deposits and 16.3% savings deposits. So a very good base.

Continuing with slide 13, banking fees. Here, we see that banking fees went up by 3.1%. And this is basically a recovery of the revenue that we had lost because of the pandemic. From March and April, that was the worst part of the pandemic when the economy was basically stopped. And then month by month, we started seeing a recovery. If you look at our network and several segments we service, with every month from April, we did better.

So May was better than April. June was better than May. July was better than June. August was better than July, and September was better than August. So this growth is what led to this figure. And this quarter had a 3.1% growth in banking fees versus the previous quarter. If you look at the nine months of 2020, there was a reduction of 5.2%, but basically because there was a stop in our revenue during the most critical part of the pandemic. But this quarter, levels have started to go back.

Looking at payroll coverage versus banking fees. This quarter, the Banking fees by personnel expenses ratio dropped to 93.7%. But this was a pay raise of R$2,000 per employee, which generated an expense of R$20 million in the month of September. Meaning that personnel expenses went up this month, but this will not happen next month. And that is why this ratio was dropped to 93.7%.

slide 14 shows our administrative expenses. There was a drop in about 5% in the 9M20 versus the 9M of 2019. But if you look at the other administrative expenses, this reduction was 11% in the same comparison. Personnel expenses grew by 1% as we can see on this 9-month view.

During this quarter, administrative expenses went up by 4.4%. And again, the reason why is because there was that effect, I mentioned, the payment bonus that was approved. It was R$2,000 per employee, generating a R$2 million expense that impacted this quarter. And also, we accelerated payroll loans via correspondent employees. So paying commissions also made these expenses go up. So basically, that is what justifies this growth in expenses this quarter.

We have a strong commitment in containing administrative expenses. This is something that we always analyze carefully. And this administration is focusing on this, so that we can have reducing costs.

Continuing with the credit portfolio, slide 15. There was a growth of 4.6% in our credit portfolio, nearly 1% quarter-to-quarter. Earmarked credit and personal credit went up significantly. And payroll loans via correspondent employees went up significantly by about 20%.

And agribusiness credit lines also went up by around 20%. So these are the two highlights in our credit portfolio. And I would also like to highlight that the payroll loan participation is very important because it provides robustness and quality to this credit portfolio. There is another effect too: it benefits our capital structure because it brings more favorable risks.

Continuing with slide 16. Here, we have our renegotiated credit portfolio. So this discusses the renegotiations that took place during the pandemic. Until September of 2020, we had a total installments renegotiated of around 228 contracts with a financial value of R$744 million. So these were basically clients who were at default, but with favorable credit ratings from AA to C, they responded for 80% of these renegotiated contracts.

And in payroll loans, it was 93%, and I think real estate also had clients under those ratings. If you look at the installments renegotiated, they correspond to 2.1% of the total loan portfolio, 1.2% in individuals and 3.5% in companies. If you look at the clients who requested renegotiation and the risk they have with the Bank, it means that clients that have operations with the Bank correspond to approximately 15% of this credit portfolio. And out of this 15%, if we look at the breakdown, 31% are real estate credit clients and 20% are payroll loan clients. So they had to pause for a couple of months, and now they are back paying. So this is not a strong operation.

So what they have not paid was diluted throughout the rest of the contract. So 31% of the 15% are real estate credit clients. And they actually have a great collateral, which is their piece of real estate. So we did not have long-term operations. So we wanted to provide renegotiations, but without providing long terms. So R$162 million has already been paid, so 21% total.

And looking at the default rate for this subgroup, that is the group that renegotiated with us, it was only 1.6%. So we are very comfortable with our renegotiations. We think that the clients who renegotiated with us have good credit ratings and the performance of this portfolio proves our opinion. So this is within our expectations.

And we can continue with slide 17, which discusses our credit portfolio. We continue to have a similar participation as we had in the last quarter. 88% of individuals are in normal credit risk, but what went up was the percentage of individuals in our portfolio, and that is very positive. We have very solid position where nearly 80% are payroll loans. Real estate credit also represents 11% of our credit portfolio. And rural credit often has also physical collaterals. So this is a very well-defined portfolio. 88.8% has a rating of AA to C.

Continuing with slide 18. Here, we discuss payroll loans. It is growing about 9% year-on-year. With correspondents, it was around 20.6% year-on-year. As I mentioned, 46% was payroll loans in our portfolio. And most of it was for employees or individuals receiving pensions from the INSS. So it is a very solid portfolio.

Let us continue with slide 19, which discusses provisions. Provisions this quarter were R$319 million, substantially below the last quarter, but it is higher than the provisions we had in the 4Q19 and the 1Q20. So again, the highest provision was in the 2Q20 when we had the peak of the pandemic.

And we did not have such a difficult situation as we expected by the contrary. And we can see this in how the economy indexes are behaving. But in the 9M, the provisions were much higher than last year, 18% higher and our provisioning index is around 7.8%, which is still on the same level that we are used to working with.

slide 20 discusses our credit quality. So the default rate went down to 2.98% this quarter. So it is basically in line with what we had before. In one year, I think this is probably the lowest level we have had. So it is lower than the 4Q of 2019. And we also have a comfortable cover rate at 90 days, 260%. So this is a quite comfortable level.

Finally, I would discuss our Basel Index, which is 16.2%. It went up versus the last quarter. It is very comfortable, and it allows us to still continue to expand our credit portfolio in the next fiscal year. So again, this is a comfortable position we are in.

Before I conclude, I just have a statement from the Board. The Board that started in July last year, have made a commitment to our employees. Both our own employees, our outsourced employees and our clients, so that we can continue to maintain health protocols to prevent against any risk for our employees.

We continue to follow that. We require all of our employees to follow health protocols, and that will continue until there is a vaccine or a treatment that will allow us to work in office. So the health of our employees comes in first, as well as our clients and outsourced clients. So this is our principle that is above all others.

Besides that, we also have a great commitment to transform the Bank so that we can face the challenges we have ahead of us with the new competition and financial markets. So our challenge is to go along with the Bank in this transformation. It is certainly a digital transformation, and it is going to use all the digital tools we have available to transform people's experience, their lives and how they use our channels. We want to make it simple. We want to make it intuitive, and we want it to facilitate their personal and professional lives.

So in order to reach this goal, we have to change how we manage people and human resources, and that's why we have hired Mercer, and we are working with them on plans to adapt how we manage people and provide bonuses and career plans and so on, so that we can be in a position that matches the current world. We are focused on cutting costs. I think that is easy to see in our figures.

So we are always concerned about our expenses. And that includes changing our branches and also our Voluntary Employment Termination Plan, and we also have to support innovation initiatives such as the Caldeira Institute, BanriTech, and we have to continue with our digital transformation guidance, which is essential in reaching our goals.

In terms of business lines, we still continue to focus on payroll loans. And also agribusiness credit, real estate credit and credit for SMEs. That is basically it. We still have a very diversified retail bank with several products, focused on cross selling, offering whatever we can offer in the Banks such as insurance and also consortium plans. That is basically it.

I would like to thank you for your attention, and we can continue with the Q&A.

Giovanna Rosa, Bank of America:

Good morning. Thank you for taking my question. My first question is about your provisions. All banks have had provisions with a maximum cover level if you compare to the historical average. But your coverage is below what we had last year. So if you can tell us about how your provisions are working, especially considering a scenario that is still uncertain in terms of the default level for next year. Also, if you can tell us what you are expecting for 2021 on provisions, that would be great. And I will ask my second question afterwards.

Osvaldo Lobo:

So just as I had said in the previous call, these provisions are being monitored from the performance of daily defaults and the coverage level of 260%, is not something that we pursue. It is the result of something, but what really generates this result is understanding how defaults are happening, measuring the risk for that portfolio and providing the right levels of provisions based on our risk perception.

Again, we understand that this is the best moment to assess risk, especially in comparison to the previous quarter. And in the future, despite the uncertainties we have on how the portfolio will react, considering how the renegotiations happened with Banrisul, I think that these levels will remain stable, and they might even improve in the next quarters.

Claudio Coutinho:

So just to add to Osvaldo's answer. Looking at the 90-day cover, in the 4Q19, it was 216% and then 230% and then 234%, and now it is 260%. So it is the highest in the year.

Giovanna Rosa:

Right, but it is below the 3Q19.

Claudio Coutinho:

Right, but it is higher than all the other ones from that quarter until now.

Giovanna Rosa:

Okay. My second question is about 2021. If you could speak generally and give us an overview about how you are seeing the main results lines for next year, and what are the main growth drivers for your income and how you will recover it?

Claudio Coutinho:

As I mentioned, payroll loans, agribusiness loans and real estate loans, and also SMEs, that is the retail strategy. We want to grow in these portfolios, and that is what we are going to do. At the same time, we want to have a cost control program to reduce the number of branches and also become more digital to cut costs and to improve customers' experiences, but I think that is it. We do not have a guidance for income yet.

Giovanna Rosa:

Okay. I just wanted an overview. And if I could ask a follow-up question, the lines you mentioned are the ones that have a high level of competition. So, it is difficult to imagine that we are going to have an improvement there. If your NII does not have a positive change, it is very difficult. Even if you control costs and so on, it is difficult to imagine that the Company's income will grow next year. So if you could tell us about your NII, that would be great.

Claudio Coutinho:

Our NII is impacted by our CVM portfolio, which was impacted by the market in September. So interest rates for future markets will likely go up. So our margins will improve. Maybe not our results, but our margins will improve. And that is one side.

And we also hope to expand our portfolios in terms of volume. So that is going to affect the bottom line. If you look at the payroll loans portfolio, despite the competition, we grew 20% year-on-year. And in September, we have seen a recovery in our branches network. So we need to expand our portfolio and reduce costs. That is basically it.

Giovanna Rosa:

Okay. Thank you.

Yuri Fernandes, JPMorgan:

Thank you for taking my question. I have a question on your legal provisions. If you can tell us what they were and if they are going to reoccur. They had a big impact on this quarter. So I would just like to know a bit more about that. My second question is about your NII. I thought it was very weak. It is the main highlight this quarter.

And I would just like to understand if you also expect this to continue. I know that your revenues are pressured, but are we going to see a higher NII? What are you projecting? Do you imagine that you will have pressure on your credit or securities portfolios? Your NII is quite low even despite your portfolio going up. So we know that there are banks that are growing and having positive NII. So I would just like to know a bit more about that.

Irany Sant'Anna:

Good morning, everyone. So about the labor provisions. This is something that needs to be discussed from two points of view. First, there was a change in how provisions are calculated. This change was perfected and that led to a change in our portfolio to match the losses that we already have.

We suffered a loss, and we have been working to reduce and mitigate these problems. So with the last provision, I can mention the collective cancellation of contracts, and labor laws have also changed and that favors the Bank in the future.

So the root cause for these liabilities will be much less significant in the future. We are reviewing the methodology for our provisioning, which impacted it, and we believe that future flows will not consider some provisions for labor lawsuits, and they will be completely favorable for the Bank. This is the medium and long-term perspective. We believe that these provisions will be better contained.

Yuri Fernandes:

That is clear. So if I understood, you are adapting your inventory, so you are creating a higher provision. And do you believe that it is normalized from now on? Is this a one-off this quarter? Or should we expect something similar to happen for the next ones?

Irany Sant'Anna:

No, as I mentioned, we received a great number of demands from labor lawsuits. Most of them from a certain office, and all of this has been mitigated. So the number of lawsuits against the Bank will go down. Looking ahead, you will see that this has been mitigated. If you look at provision needs, there are still some provisions that need to be made for class actions.

Most of them have been set. You will remember, last year, we talked about this. We had a great provision at the end of last year, but our expectation is that we will reduce the future need for that, and that will offset the provisions that we have not yet made.

Yuri Fernandes:

Okay, that was very clear. Thank you.

Tiago Binsfeld, Itaú:

Good morning. Thank you for allowing me to ask a question. I would just like to ask some more about your Voluntary Employment Termination Plan. I would just like to understand what accounts for the costs you will have with it, if that impacts this quarter or if it will affect the next one?

Claudio Coutinho:

Basically, we have not included this in this quarter because negotiations concluded in mid-October. And basically, this is the cost of termination, everything included in the termination plan. So depending on the category of the employee, you have to pay several fees, if they had payroll or not.

So you have to look at the number of salaries per year versus a number of years worked. And that leads to legal fees and this is disbursed, and it will all be disbursed this quarter. So it will all be listed in the 4Q. And that is basically it.

The R$60 million we had is an estimation of all the terminations and their costs. And it was even mentioned, and I think this is important to restate that this is in a completely new termination plan in Brazil, because at the same time, it closes the work contracts. So no labor lawsuits can come in. These 800 employees will not be able to file labor lawsuits against the Bank. And what they will receive, it depends on each case.

Tiago Binsfeld:

Okay. That was very clear. My second question is just about the renegotiated portfolio. You said that a huge number of installments have already been paid, I think, around 20%. Do you have that data for the number of contracts, just so we understand this portfolio better?

Claudio Coutinho:

I can get the IR team to send that to you. I do not have that right now, but I can ask the IR team to send it to you.

Tiago Binsfeld:

Yes, it just seems that 21% is low, but it may be because we are looking at the number of installments. Usually, contracts have more than one installment, so it is difficult to compare to your peers. So if you could provide those figures for the number of contracts, that would be helpful.

Claudio Coutinho:

But the 21% is what has already been paid out of what was renegotiated. This is what has already been paid. R$162 million has already been received. So that is what the 21% refers to, okay? I do not know if that is what you were asking.

Tiago Binsfeld:

That is great. Thank you.

Yuri Fernandes, JPMorgan:

Good morning, again. I do not know if my question about NII was answered, but I would just like to ask about your payout. If you are able to pay for 2020, the 40% payout that you usually do, do you think that this will be possible this year? Maybe with buybacks and also the NII question I had asked.

Marcus Staffen:

Around R$60 million, but R$40 million are bond prices. So there was an effect of 20% this quarter. This is normal considering that credit has been growing at a slower pace, led by the portfolio that was started with our correspondent employees.

If you look at the monthly basis, in September, we are already capturing more expressive growth in the payroll loans portfolio that started in branches. If you look at a yearly comparison, it is still below what we had in 2019. Maybe this answers your question. Maybe that is the main growth driver for the next year.

And our credit portfolio still has a very good margin if you look at the Selic levels. It dropped by not close to the interest rates. So the answer to your question is, yes, payment loans on contracted.

Yuri Fernandes:

So can you tell us about what you expect for 2021, if there will be payouts?

Claudio Coutinho:

No, we have no information on that yet. This has not been discussed yet. The Central Bank banned these payments, I think, until the end of the year, but we have not resumed talking about that yet.

Yuri Fernandes:

Okay. Thank you, Coutinho.

Luiz Fernando Azevedo, Safra:

Good morning. I actually just wanted to ask about what your bond prices were this quarter. I think you mentioned it, but I got disconnected. And my second question was about the credit relief lines for companies. You mentioned on the slide that you have provided R$1.5 billion in credit. How much of it was until the end of the third quarter? How much of it came later? And do you think there is still some room to grow there?

Claudio Coutinho:

I think it was R$40 million to answer your first question, a R$40 million expense. And then Marcus can confirm that. Actually looking at the lines that are still open, the only one that is still open is PEAC - FGI. This is the only line that remains open. But Pronampe and PESE have already been closed. And most of it was provided until the end of September. I am not sure if we have anything for October with Pronampe. Maybe the IR team can answer this. But most of it was before September.

Luiz Fernando Azevedo:

FGI, was it more listed now in the third quarter? Or did it come in before?

Osvaldo Lobo:

So to try to help what is different about FGI is that it is a program for large companies. Pronampe and PESE are basically not offering, or they are offering very little credit from September. What we are doing making use of the fact that they included corporate is with PEAC. It is around R$600 million, R$700 million as of today, and we are working with the possibility of reaching R$1 billion.

Luiz Fernando Azevedo:

You mean PEAC, right?

Osvaldo Lobo:

Right. All the other ones will remain the same or will have minimal readjustments because they were already pressured by the demand.

Luiz Fernando Azevedo:

Okay. And PEAC at the end of the third quarter is the R$550 million? Or was it below that?

Claudio Coutinho:

It was below that. This is based on November 5, so it is below that.

Luiz Fernando Azevedo:

I see. So it will probably grow during the 4Q?

Osvaldo Lobo:

Yes, it will. For a couple of reasons. First, because it includes corporate, and we also got a higher share of it in the recent past.

Luiz Fernando Azevedo:

Okay. Thank you.

Sofia Viotti, Bradesco BBI (via webcast):

Good morning. What are your plans to tackle your default cover? Do you intend to reinforce that cover? Or will it be consumed in the next quarters?

Osvaldo Lobo:

As we said before, every month, we recalculate this index, we are looking at defaults every day and estimating default levels, especially based on what industry our clients work in. We understand that we had a good cover. And instead of comparing to the peak cover, over the last quarters, we expanded this mattress. We believe that it will remain flat or if it continues performing as it is, it can even reduce in the next quarters.

Operator:

As there are no further questions, we would like to pass the floor to Mr. Claudio Coutinho Mendes for his closing remarks.

Claudio Coutinho:

Thank you all for listening in. And I would also like to thank Alexandre Ponzi, who is the Investor Relations Superintendent. He has been for a long time. And he participated in the Voluntary Employment Termination Plan, and this will be his last meeting as a Banrisul employee.

So we would like to thank him for his dedication throughout all this time, for the partnership and all the contributions he made with analysts and disclosing Banrisul information. So congratulations for your work, and thank you so much for all you have done, Alexandre. And I would like to thank you all for listening in. Thank you.

Operator:

This concludes Banrisul's conference call. We would like to thank you for listening, and wish you a great day.