Q2 2021 Earnings Call

Company Participants

- Angel Santodomingo Martell, Principal Financial Officer, Vice President Executive Officer & Investor Relations Officer, Member o
- Sergio Agapito Lires Rial, Chief Executive Officer, Vice Chairman of the Board, Members of the Executive Board

Other Participants

- Analyst
- Marcelo Telles, Analyst
- Thiago Batista, Analyst
- Unidentified Participant

Presentation

Operator

Good morning and thank you for waiting. Welcome to the Conference Call to discuss Banco Santander Brasil SCH results. Present here Mr. Sergio Rial, CEO; Mr. Angel Santodomingo CFO; and Mr. Gustavo Alejo, Head of Investor Relations. All the participants will be on listen mode during the presentation, after which we'll begin the question-and-answer session when further instructions will be provided. (Operator Instructions) Live webcast of this call is available at Banco Santander's Investors Relations website at www.santander.com.br/ri where the presentation is also available for download.

We would like to inform that the questions received via webcast will have answering priority (Operator Instructions) each participant is entitled to ask one question. Before proceeding, we wish to clarify that forward-looking statements may be made during the conference call relating to the business outlook of Banco Santander Brasil operating and financial projections, targets based on the beliefs and assumptions of the Executive Board as well as on information currently available.

Such forward looking statements are not a guarantee of performance. They involve risks, uncertainties and assumptions as they refer to future events and hence depend on circumstances that may or may not occur. Investors must be aware that general economic conditions, industry conditions and other operational factors may affect the future performance of Banco Santander Brasil and may cause actual results to substantially differ from those in the forward-looking statements. I will now pass the word to Mr. Sergio Rial. Please Mr. Rial, you may proceed.

Sergio Agapito Lires Rial {BIO 1925337 <GO>}

Well, thank you very much. I would like to start by again thanking everyone. I'd like to also give a welcome to Gustavo who is our new Head of Investor Relations joining us in this important call, and of course our CFO, Angel will then take this conversation further with all of you. The reason why I'm here is to at least to try to provide some context for the news of my migration to the Board. A couple of thoughts and promises [ph]. One, I'm not leaving Santander as a group. I remain very much committed to both Santander Brasil, but also to Santander Group.

Second, succession has been really planed over the last two years. We had an extensive and well thought process, very much linked with the local board and the Group Board primarily also due to the materiality of Brazil and South America for the whole group. We had an extensive research -- both externally and internally I started the process since the day I joined the company as a CEO. So there were a number of names on the list. And then I'm very glad that as a CEO, was very much supported by the Board, which is the Board's prerogative at the end, the succession I was able to actually indicate the person and the executive that I think will take Santander Brasil in a second phase. Mario has been part of the team for the last four years, (Inaudible) I had the opportunity to test, see, observe, challenge, not only him but also other potential names and I'm very much convinced that on the back office technical background, leadership style, commitment and an incredible unlimited curiosity, let alone that he has got more ambition than I do for the business overall, I think I'm going to be leaving the organization next year in very good hands. We have a very clear process that until the end of this year, I am leading the organization, so there is absolutely no confusion whatsoever and as from I would say probably more in November we'll start what I would call more of a gradual handover of the keys, but the process is clear. He takes over with Carlos Rey for South America on January 1st, and in the meantime, we still have a year to deliver and we want to deliver the best year in the history of the company. And more importantly than this year is to create the base for a phenomenal solid 2022. I think we have proven repeatedly that we are committed to profitable growth. I think we have proven repeatedly that despite regulatory changes, despite all the unknowns, we have been in a very humble manner, because we always say, we don't know what the scenarios are going to be. The only thing that we know is that we've got to be prepared to any scenario. So I think the cultural component of Santander is very, very strong, and I've been saying that from the beginning. Perhaps if there is a legacy that I leave is this big Board, which has become a bit of a cliche, but if there are certain aspects of Santander today are its very clear cultural traits and what would they be from our perspective: Speed, desire to grow, and focus constantly where are the opportunities for growth. You will see that as Angel explains what has happened in areas like credit cards and other areas like the distribution channels.

Third, very committed to have constructive and difficult dialog. We tend to deal with difficult issues in groups, in committees. There is a high level of what I would call intellectual honesty, perhaps not as much as it should, but the culture permits people to actually disagree and provoke change. The other component of the culture, autonomy. I believe in autonomy. I believe in business units. You're going to see a quarter where Getnet is no longer in the balance sheet. It was a business that was successively incubated inside of Santander. We certainly bought a platform a number of years ago and we will deliver one of the strongest performance of the business relative to some competitors and even to the macro and the pandemic scenario.

So the message to you all is we're going to have other chances and opportunities to explore the change, transition, potential risks. I want to make sure that you all at least hear directly from me that succession was planned. You actually plan your succession when you don't need to be succeeded. This reinforces the culture of being contrarian, yes, we are contrarian. We tend to take sometimes not the obvious paths and it's -- this is exactly the best and strongest moment of the company over the last ten, 15 years and that's exactly when you think and you should a plan and put in place the right gradual succession. Key message is, I remain in the group. Mario has been part of the Group. I'm not going to be an Executive Chairman, but I will not be a Chairman of Committees. So I'll be present inside of the bank. I will certainly help management to continue all the strategy. I think I can reassure you that there is going to be a high degree of continuity, certainly not going to be the same, hopefully be better. But certain elements of continuity being growth and elements of the culture will be certainly kept because Mario has been together with the rest of the Executive Committee being a very important part of this construct.

We are also adding Andrea Almeida who was formerly the CFO of Petrobras and a long Executive inside of Vale for many years. She is going to be bringing a phenomenal experience in key commodity spaces for the Executive Committee, especially in a world where ESG is going to become so important. So to have someone not only with her financial acumen but also her views around ESG and how she experienced it from a mining and fossil fuel industry will be really helpful for us to continue to position ourselves as a leading force in becoming and being an engine for economies of low carbon.

Last, I'd like to thank you all for following the story. We remain again committed to the stock. My deferral remains committed in Santander Brasil stock. So I'm really pleased that I'm able to hand it over by the end of the year to a very high quality person. You're going to have the chance to see him next year more in detail. In the meantime, we still have the year to deliver to shareholders, and hopefully you will enjoy the conversation with our CFO and the numbers. We are really proud to deliver a very strong second quarter. We started very strongly for third quarter and fourth quarter. You will see the best year of Santander in 2021. And Mario will do everything he can in an appropriate manner and of course within the right level of governance he will absolutely exceed everything that Sergio has done with my President Executive Committee. With all of that, remember, succession happens when you don't need to be succeeded. With that I pass my word to Angel, our CFO, and please enjoy the call. I will disconnect, and of course I will depending what Angel and Gustavo will then guide me certainly happy to then organize the meeting with the sale side, with investors at the appropriate time during the month of August or in the early part of September. Once again, thank you very much. Angel with you.

Angel Santodomingo Martell

Okay, thank you. Sergio. Good morning, everyone. Hope you are doing well. What I will do from now on is share with you the presentation of our results, our second Q results, and then we will open as always the session for Q&A. So starting with the presentation in the first slide on the slide four, the first idea is I mean we saw how Santander has integrated business system in Brazil which serves over 50 million clients. Reaching thousands of customers who use our platform on a day-to-day basis allow us to leverage business opportunities. Our channels receive more than 500 million visits every month. The auto platform alone for example, which includes Goyamoto, Santander Alto, and Santander

Financiamentos generates over 35 million monthly interactions. It's also worth noting the bank's initiatives and new businesses in open waters with platforms such as seen in (inaudible) which will enable us to further accelerate the pace of customer acquisition and loyalty.

So in the next slide, you can see the high volume of active or potential customers passing through our channels, which provides us with good growth opportunities. This is a growth clearly trend. We offer a comprehensive range of service channels from which customers can select the type of service that best suits their needs, whether it is digital, remote, physical, or external. We currently here from about 17.3 -- or a little bit more than 17 million customers who self-serve through digital channels each month. This has allowed us to increase our sales by more than two times over the last year while lowering execution costs in the remote channel thanks to the new service model, we are already exceeding 300,000 sales per month, and it's just a start.

Similarly, the physical channel continues to see a high volume of people in clients, non-clients in our stores as we call them, our agencies, with over 50% of those 15 million clients and non-clients per month being potential businesses. We have also been expanding into strategic regions, the internal part of the country, that have shown a strong potential and fast forward revenue growth. The external channel is comprised of banking correspondents and the bank's business verticals such as (inaudible) et cetera, which have been also experiencing steady growth and we (inaudible] presented during the past of how cheap and profitable they are.

The next slide, I presented to you last quarter, the different types of clients from the non-active after 90 days to the largely linked ones. There are two important points to consider here. Do we grow that client base and do we move clients to the most profitable group those more linked or loyal? And the answer to both questions is yes. The pace of customer acquisition increased by a remarkable 50% year-on-year. Our total client base grew 8% in one year. In the same period, our most linked clients group, the $7.1 million you can see in the upper part, grew 26%, at a pace more than three times faster than the total client base. And finally the full length group is $14.1 million, the adding of the first two categories it stands for 80% of our total revenue. So we strongly believe customer services are differentiating factor, which is reflected in that NPAs that you can see on the right side of almost 63 points.

So I mean we spoke -- in the next slide, we spoke about client growth. Now let me address how we cope technologically speaking with that huge growth or with that amount of growth. We boosted our capacity, speed, and productivity to ensure that our technology initiatives were aligned with our ambition. The initiatives implemented will play a critical role in Santander's results in the future, particularly by shortening the time to market of new products and services. The wide scale adoption and use of artificial intelligence and Big Data have already enabled us to increase the number of new process and the deployment. So this is a fact already, this is not our plan, we are already using those facts as a way of growth. And by the end of the year, 72% of our operations will be running in the cloud.

In the next slide, you can see clients growth in technology need also people. Regarding inclusion, women already make up 30% of our leadership positions and 26% of our employees are black. We have already achieved the objective that we had for next years with still a lot of room for improvements. As part of the collaboration process, we incentivize knowledge dissemination with employees acting as leading figures. Training is key in our model. 3,000 courses, more than 70% of them being given by our employees, by internal people. As a result of our actions in this field, we were recognized by Great Place To Work in both the human and the LGBT categories in 2021.

And finally, the next slide, society in which we live. We aim and with (inaudible) services with you during the last six, seven years, not just the last quarters to contribute to the development of our communities. We have executed business wise a total of almost BRL28 billion in green businesses. Apart from working with large companies from bond issuances and project finance, we are also expanding our presence in microcredit through Prospera which ended the second quarter with a loan portfolio of BRL1.5 billion and more than 600,000 customers. Additionally, we have set the specific targets to reduce carbon emissions, help with environmental conservation and increase the use of renewable energy sources. We also give back to society by engaging in social initiatives such as the donation of over 200,000 food baskets in collaboration with our employees and customers. These efforts have earned us a score on Exame's Magazine's list of the best ESG companies here in Brazil. And all that is also supported by part of our business. Our position as one of the best banks for large corporations is farther [ph] strengthened by our leadership in the wholesale segment that you can see in the next slide. We are Brazil's obviously only international bank with a full range of services. For example, for the 8th consecutive year we have ranked as the largest ForEx bank. On top of being a major player in infrastructure advisory and financing having risen to the top five in energy trading in just one year, we are also becoming a benchmark for agri business with the largest agricultural commodities desk and leadership in green financing.

So all these leads in the next slide to our study. So, all what I presented to you is based on an integrated business platform that reaches millions of active and potential customers with a comprehensive channel offering. These facts arrived to the (inaudible) customer experience that I already mentioned in satisfaction has led us to deliver the highest quarterly net profit in our history, while maintaining our ROI above 21%. In fact it's the second best return on equity on our history, the 21.6% you can see in the slide. Recurrence enables us to generate returns above the cost of equity on a sequential basis, is steadily creating value for our shareholders and outperforming the (inaudible) local index in the process.

So moving to the numbers, the second part of my presentation on the Slide 13, we detail our P&L that we have published during the nigh. Second quarter 2021 figures do not include Getnet, this is important. Sergio commented in his introductory words, as the spin-off was approved on the last day of the first quarter. So what you are seeing is already with Getnet excluded for the numbers -- from the number. We closed the period with a net income of BRL4.2 billion, the highest we have had ever reported for a single quarter, representing a little bit more of a 5% increase compared to the first quarter of this year and 8% on a year-on-year basis.

Let me highlight some key messages here. On the revenue front, NII was stable in the quarter and saw a slight increase relative to last year, reflecting we can market activity in the period, but better client activity. Fees increased by 27% over the same quarter last year. Here the customer base growth and higher activity boosted cards, insurance, and financial advisory driven [ph]. And on the expense side, provisions has stayed under control, in fact is stable. On a year-on-year basis we have a strong growth of the credit portfolio and writing [ph] in the quarter more aligned with that loan growth. General expenses are increasing at a lower -- clearly lower pace than inflation and below the revenue growth fast improving efficiency.

Efficiency ratio at the level of these 33.8% that you can see on the lower part, this is our lowest ever and probably again as it has been during the last several quarters, the best in the country. Regulatory ratio reached a level of 7 -- 92% that you can see. Capital is strong at 12.6%, the core equity Tier 1 ratio, and return on equity as I mentioned 21.6% being the second all time high we have presented to you.

On the next Slide, it depicts the evolution of how our NII highlighted by, as I said before, customer NII which advanced by 1.6% Q-on-Q and 4% year-on-year, with product NII benefiting from positive volume dynamics as you will see in the next slide. And spreads despite a slight increased tend to remain stable or even recovered a little bit as we go through the quarter, given the better mix going forward. As anticipated last quarter, NII from market activities has come back to a more normalized level. A bunch [ph] into the next slide, we can see that our loan portfolio grew by 3.5% Q-on-Q, sorry, and almost 15% year-on-year. So these BRL440 billion at the end of the quarter. The individual segment continued to outperform with mortgage and payroll loans bolstering growth. Consumer finance grew by 1.7% Q-on-Q and close to 10% year-on-year amid a challenging scenario for the automotive industry. SMEs had a good quarter growing 6.5% attributable to a recovery in demand. Corporate lending also performed well in the face of a weaker ForEx rate. Disregarding this impact the portfolio would have grown by 6.3%. So the 4.2% that you see in the slide, would have been 6.3%. On the deferred loan that you may see on the right hand of the slide, loan portfolio, it totaled BRL32 billion, indicating and amortization of 35% since -- in the last 12 months, we've seen since inception which I presented to you in June of last year. I remember [ph] to you that this was almost BRL50 billion at that point of time. The 15 to 90 days NPL which I have also presented to you in different moments of time reached 4.6%, which means an improvement compared to the previous quarter. In the previous quarter that ratio, which is -- now stands at 4.6%, stood at 5.8%. And finally, it's important to note that 71% of the individuals' loan book is collateralized.

On Slide 16 speaking about liquidity and capital, you may see that our funding has improved its performance in the second quarter. Even in a more dynamic economic environment time and demand deposits continued to show increases in the balances. Financial bills on the other hand increased quarterly and -- but continue their downward trend on a yearly basis. We have issued some volume in the quarter to maintain a well diversified funding base in the balance sheet. It had reached a too much probably low level in that sense. At the end of the quarter, capital on the right hand, is stood at comfortable levels as I mentioned before. The BIS ratio almost at 15% in the core equity Tier 1 at 12.6%.

Moving on to fees, the brighter spots in the quarter were credit cards, insurance, and asset management supported by customer base growth again and more importantly, a stronger loyalty, the issues I addressed in my strategic slides. Cards grew by roughly 40% year-on-year with higher transactionality and good turnover. Insurance went up by almost 29% to 30%, and 28.7% year-on-year, thanks to a pickup in credit life insurance. And asset management as an example, increased on the back of a consortium in France, consortium (inaudible) in France rising by more than 50% year-on-year. In the next slide, we can see how our asset quality has evolved. It remained at a good and controlled level in the quarter with a high coverage ratio, reflecting our solid risk management. As suspected, given early year seasonality, short-term NPL improved by 30 basis points Q-on-Q to 3.3% on the red line in the upper part, which remains below our historical levels. The 90-day NPL kept the healthy and comfortable ratio at 2.2% quite stable as you can see historically and even better than one year ago. With a coverage ratio of 263%, we believe that the (inaudible) level of additional provisions on our balance sheet of -- which I have presented to you of roughly BRL6 billion is adequate. You can also see that our loan loss provisions is stayed under control consistent with our cost of credit of 2.7% which is lower than in the same period of a year ago. This performance again reflects our diligent lending practices. And finally recovery, that red small part, you can see on the right-bottom part of the slide, recovery continues to present levels above BRL700 million per quarter, which is positive when compared to the old levels 500 million to 600 million range per quarter that we had in the past.

The next slide shows how our expenses have performed. We continue to have a strong efficiency agenda as in the last five, six years which has contributed to keeping our expense growth below inflation. We had a 4% year-on-year rise in total expenses, well below the 8.35% inflation in the period. So it's less than half inflation. We have conducted and will continue to conduct a thorough review of our expenses. This performance corroborates our commitment to productivity, operating leverage in the P&L, which led our efficiency ratio to improve by 80 basis points year-on-year to that 33.8% that I I mentioned before, a historical minimum in that sense. At this level, you [ph] also mentioned that it is possible as we have done in the last -- for some time already in the last quarters, but we remain as the best in the industry.

So to finalize my presentation and final takeaways moving ahead to Slide 21, I would like to underline the following: Nothing compares to consistency. Six years of profitable growth and we remain focus for the next years. The commitment to developing a robust and complete financial platform resulted in a record level of new customer acquisition. Great business dynamics, the lowest efficiency ratio we have ever delivered, 33.8%. The second best return on equity we have ever delivered, 21.6% despite the macro environment. Our unique corporate future deeply committed to growth, results, and society. Thank you. And now I open the floor for the Q&A.

Questions And Answers

Operator

(Operator Instructions) I will now pass the word to Mr. Gustavo (inaudible). Please Mr. (inaudible) You may proceed, making the questions sent via webcast. It's important to do the reading of the webcast question seeing [ph] the name and house [ph] analyst.

Q - Analyst

So good morning, everyone. So our first question, we have a question from Gustavo (inaudible) from (inaudible) and also from Thiago from UBS. Now although the NII with clients expanded in the quarter, the net interest margin with clients decreased quarter over quarter despite the stronger growth in line and with better interest rate. What could explain such a decrease despite the better mix? Do you believe that the NII with clients should improve in the upcoming quarters? Any color on how good the lower mix NII role in the coming would be very useful.

A - Angel Santodomingo Martell

Okay, thank you. I think we have two discussions here which is the NII and the NIM. No? The NII as was mentioned in the question, we are seeing good growth on the client side. So NII in absolute terms is growing given volume, given volume in terms of clients, and given volume in terms of growth of the portfolio. I already presented that the credit portfolio is growing at about 15%, almost 16% if we exclude the ForEx impact. So that capacity of growth, those more than 600 new clients per month that we are achieving, those new almost more than two million clients that we will have -- active clients that we will probably have by year-end, et cetera, all that is continuously affecting the different lines of revenues and specifically the NII. So my guess here is that we should continue in a positive direction. Now, if we speak of NIM, there you have to consider how you obviously evolve or how you dilute or not due to spreads going forward. And here place a couple of things: Place the mix, and place obviously the funding cost. The funding cost has been rising as we all know given the situation in terms of the deal (inaudible) et cetera. And the spreads, we have -- if you compare the spreads historically, we have -- we are at levels that are the same ones or similar to the first quarter of last year, better than fourth quarter and a little bit lower compared to first quarter. So we have stabilized that decrease of the spreads that we have seen in the past and even improving compared to third and fourth quarter last year, which means that the trend is at least flattish, if not improving in the different products. We have products in which we are improving the spreads, we have products in which we are stabilizing them. So looking forward NIM will be pressed by volume, because for the good we have capital and we are deploying capital to that growth of credit and at the same time it will be to somehow diluted by that spread. I would see NII on the -- clearly on the positive territory, and NIM it will be there around flattish depending on that final volume growth.

Q - Analyst

Thank you, Rial. So our next question comes from Pedro Leduc from Itau BBA. Can you discuss a little bit more about first your technology, new initiative of concentrating everything in a separate entity from the bank. Is it going to only provide service to the bank or other components like Getnet?

A - Angel Santodomingo Martell

Yeah. We presented -- thank you, Pedro for the question. We presented first which is these new technological company in which we will be including around 3,000 direct employees in another bunch of external basis or external forces. What are we trying to do? The first thing that we are trying to do is compete level -- at the same level with what we would call today technological providers. Okay? I'm not speaking competitors of the bank. I'm speaking of technological providers. And for that, building a new company in which you compete as I said in all centers there. You compete hand-to-hand to that to those developers, given the need for talent and the need for good professionals in that arena, we thought it was key. The second idea is that this company first will provide services as a data center, okay, for other companies. And why not? In the future to sell data services to the market. So we will be building a new profitable in the future, but very efficient first part provider for the bank, but obviously leveraging that to the market in the future.

Q - Analyst

Thank you, [Inaudible] So the next question that we have here is from Flavio (Inaudible) from Bank of America. Fee income come very strong in the quarter. Should we expect such a pace of growth in the coming quarters? Do you believe that insurance business and cards should continue benefiting in this line?

A - Angel Santodomingo Martell

Thank you. Flavio. Well, you're right, I mean, fees are strong, but again, I would like to underline that they are strong as a consequence of what is happening in the bank. I have been presenting for you for several quarters already and years what our study was in terms of client attendance, NPAs, in terms of attracting new clients, and in terms of moving clients from the less profitable to the higher profitable segment, obviously based on service and capacity of attending them. The NPAs that I presented to you, the 63 or 62.7, the 63 points I presented to you is close to the highest (Inaudible) I mean we have been moving in the last quarters in between 61% to 63%. I remember to you that we started at 40% and we have been -- last year we were throughout several quarters at the 50%, 57%, 58% etcetera. So, it is clear that the bank is giving better service. When you give better service you gain more clients. And when you gain more clients and they are happy with your service, they use you more. So transactionality clearly improves. And this is how -- and this is why you can see what I mean, you said in your question, I mean, credit cards 40% year-on-year, insurance 30% year-on-year, excuse me, funds 50% year-on-year, credit operations 21%. But I will also underline, for example, current account. I have already -- always said to you the current account fees should trend to suffer. And as you can see there, they are in the positive territory. Even considering the famous PIX effect. This new payment system that we have in Brazil by which you can pay immediately to another person and even compensating for that, we have not -- we are not in a part of our transactions, we are not charging that money transfer fees, even with that we have current account on the positive territory, again demonstrating that growth capacity.

Now going forward, again, the same answer. We are -- we have clearly ended the quarter in a strong way in terms of clients and activity and transactionality. We are not changing that intention. So we will keep on -- including insurance, in which you mentioned in the question including insurance, which I believe is one of the good stories going forward for the next years, not next quarters. We believe that client growth and moving clients to more transactionality is a way of maintaining that high return on equity through fees.

Q - Analyst

Thank you Sergio. So our next question comes from Thiago from UBS. And its related to our cost of risk, Sergio. (Inaudible) your cost of risk was 2.7 in the second quarter 2001, which is below the pre-COVID level? Is it fair to assume that the quality of the portfolio is better now than in the past and the cost of risk should be super lower than the pre-COVID level in the coming years?

A - Angel Santodomingo Martell

Okay, thank you. Thiago. Yeah, you're right, I mean the cost of risk is being maintained at low levels or at an attractive levels. I think that -- and I can speak of this as a fact. I think you will buy from me the argument that we have already showed to the market our risk capacity. I mean I don't think this is something for the future. This is already -- Santander Brasil has clearly very good risk capacities. I showed to you last quarter, we have the lowest volatile carried cost in the industry during the last years. It's not only again quarters, it's years. So that means that I would say, we have to somehow control these part of the P&L. Again, flat these absolute numbers in provisioning with credit portfolio growing 16% adjusted by the Forex or 15%.

Going forward, I always discussed with you -- I mean, I think this depends on how our macro view is with respect to the country. If the country stabilizes with the degree of liquidity that has with very good growth, I do think we are going to have a very good economic growth pattern in the second semester for example. With good growth in -- again stabilize, I wouldn't see why the cost of risk should increase. Now, if the situation gets volatile or not only because of Brasil, I'm speaking generally speaking, obviously confidence will go down and we could see some kind of marginally. I would like to underline marginally negative trend. But for the time being we don't see kind of leading indicators that we should be worried about. We don't see the deterioration. We see -- I showed to you the provided, portfolio BLR50 billion 12 months ago, BLR35 billion [ph] now. So people are paying NPLs both every [ph] arrears and 90 days NPL in that portfolio improving. So I do think that things are controlled. But I would link that answer to the macro. (Inaudible)

Q - Analyst

Thank you. So our next question comes from (Inaudible) from Citibank. Although the transition in the management had been planning for some time, the announcement was a bit surprising given Rial's (Inaudible) as a Chairman of the Board and the Group Board. Is it reasonable to assume that this is a primarily due to care in the transition in Brazil and that in the future he may equip other executive position in the Group.

A - Angel Santodomingo Martell

Thank you George. Well, you heard Sergio and I think it was absolutely clear, he is not leaving, he is not going away. He sustained. He sustained as Chairman of the of Santander Brasil, and he will be absolutely involved in continuing the trend you have seen in the last years. So he continues as also a member of the Group's Board as he has been in the last also times. He's continuous involved as Chairman of (Inaudible) which is something as you probably know that we -- the group bought also some time ago. He is also involved in the

Board of PagoNxt, this payments holding company, the Group is constructing, rebuilding with the Getnet also. So I mean we could argue anything but he is absolutely devoted and focused on maintaining what we have been delivering as a team, and I'm sure Mario will continue with that positive initiatives and positive ideas and you will see that in the next years.

Q - Analyst

Thank you. Our next question comes from Victor from (inaudible) Getnet TPV is up 11% Q-over-Q despite the meaningful change in active merchants and revenues are only (Inaudible) by a small amount Q-on-Q. What explains this dynamic? Maybe more business with larger merchants. What are the recent margin trends should -- you see in the market? You have light [ph] rebalance the funding mix. What is the optional funding mix that you like to maintain the long-term.

A - Angel Santodomingo Martell

Okay, thank you (inaudible) Getnet, I think Getnet -- well, first of all as you know, the operation has been approved by the Central Bank, the Brazilian Central Bank. Now we are in a process with the local SEC and the US SEC. And I don't know but it looks like somehow by the end of this quarter, we should be - have at least -- it doesn't depend on us, the timing, but the best estimate I have up to now is that one.

Getnet is having very good trends. Getnet, first of all, what we have seen basically, or I would say due somehow to the pandemic situation a little bit of a change of mix. If you remember Getnet has always been like 60/40, 60% retail, 40% wholesale, and this trend has reverted in the last year to increase in wholesale weight compared to the retail. The objective is to again grow in the retail business. We have the Board and external channel for that. So -- but I mean the management of the TPV is key for us. We have several KPIs there, we have the TPV that you mentioned and what we do even growing in wholesale is clearly managing that TPV. We manage the EBITDA margin. I remember to you that we are in the range of 58% to 60% in those last two quarters that is 10 percentage points better than 12 months ago, which was 48%.

But let me give you a couple of numbers. Amount of turnover growing year-on-year close to 80%. Anticipation growing year-on-year, 90%. Client base growing year-on-year close to 20%. E-commerce with a market share of 33% in the country in the first semester, e-commerce doubling, growing close to 100%, 99%. So I mean I think that the trends of Getnet speak for themselves. Again, I remember you that the numbers you have seen from the bank are not -- in the second Q, only the second Q, do not include Getnet's number. An as it will be listed in the next weeks or months, you will start to have that information in a more detailed basis coming from both Pedr, the CEO, Andre Parisi, the CFO or Investor Relation team, okay? (Inaudible)

Operator

(Operator Instructions)T Our first question comes from Mr. George (Inaudible) with Morgan Stanley.

Q - Unidentified Participant

Hi, good morning, everyone, and congrats on the great numbers, and all the best of luck to Sergio and to Mario in his new role. Can I ask a question about your NII growth for the next 12 months? it seems that the different parts that drive it are all moving in the right direction. You mentioned strong economic growth in the second half of the year, which should push credit up, the mix is improving, SME loans, consumer loans are growing faster than corporate loans. And then you have the leak rates, which are going up rapidly in what is likely an asset sensitive balance sheet. So is it fair to say that we should see a strong acceleration of your NII growth over the next 12 months? And if you can help us quantify what that could be, would be very useful. Thank you.

A - Angel Santodomingo Martell

Thank you, Jorge. You have two components in the NII clients and non-clients. On the client side. you're right, I mean, we are seeing good volume growth with client growth Inc -- number of clients coming in the bank. So as I said, I would expect that client NII on a positive territory and specifically if we do see what I said I expect. I expect the country to grow close to 5%, 6% GDP and that were to be considered on the second semester, always thinking that -- as always, specifying that the pandemic allow us to kind of have a normal life. But you do have the other side, which is the non-client side. No, I mean I already mentioned in past quarters and specifically last quarter that the non-client part which has come down to somewhere around the $2 billion, Treasury is going pretty well but -- it had a very good first Q and a more normal second Q. And you have again what we always discuss around the ALCO portfolio. So with all that in mind, as you have seen what was in second Q of last year, $2.6 billion has come down to $2 billion. So -- and that is kind of our gradual process, while we have gained close to BLR400 million, BRL500 million on the client side. So those are two trends. Again, I always say to you be aware of the volatility of the non-client side, but the trends is speaking of 12 to 18 months should be stronger client a part of the NII and probably it will depend on the volatility, I am not going to give an estimation here. But obviously being volatile, but having non-client NII which does not have a strong growth rates.

Q - Unidentified Participant

But -- thank you for that. But how does that all add up? Is the expectation flattish combined NII over the next 12 months? Because one thing offsets the other. Is it to have double digit growth. I guess what I'm looking for is a little bit more of the magnitude and quantification of the possible outcome?

A - Angel Santodomingo Martell

I would say that the NII as a total should be in the positive -- on the positive territory not double -- I wouldn't speak of double digit. I would say yes, positive territory.

Operator

Our next question comes from Mr. Marcelo Telles with Credit Suisse.

Q - Marcelo Telles {BIO 3560829 <GO>}

Hi, everyone, and congratulations once again on the great results. Well deserved. My question is regarding your lending appetite. I mean clearly, you've been growing the loan book very nicely and was particularly as surprising to see this big growth in the SME portfolio growing more than 6% sequentially. And my question is this a factor of you increasing your risk appetite as for your credit risk models or this is really the impact of you're keeping everything, your risk stable and it's just a matter of more demand for credit. So how should we think about your credit risk policies and risk appetite at the current stage. Thank you.

A - Angel Santodomingo Martell

Thank you, Marcelo. I think it has to do again with that capacity of attracting clients more than risk modeling and changes on what we already shared. I showed it to you in the first two slides the growth of clients, and when you do have that amount of hundreds of thousands of clients going in, obviously, you do have reflects on the several parts of the P&L and on the balance sheet. I would say that we have to differentiate here a little bit. You remember we have had a little bit of kind of a two phases in the last three, four years. Our first phase in which retail individuals were growing a lot and corporates, et cetera were not, that stabilized and even reversed last year and specifically with the pandemic, a lot of the companies corporates, increased debt significantly not knowing what was going to happen, and probably to some extent in an excessive way. And that is reverting obviously 12 months ago or six to 18 months afterwards as they realize that the situation is not as bad -- is not bad at all but I mean it's not as bad as they expected. So probably what we will see is more growth on the retail side, SME side, and smaller in the corporate and by far much smaller on the large corporates, okay? Because of two ideas. First is competition from other funding points like capital markets or even the equity market. And secondly, when you start to have those type of growth rates it splits then to narrow. And as I have said before during the last seven years I have been here is that we do not fight for market share, we do not fight for volume, we fight for profitability and this is going to continue like that in the future. So if those kind of operations, or in the large corporates [ph] given the competition from those other funding points, it starts to be narrow enough, we will just let it go as we have done in the past and I have shared this with you different times. So thank you so, Marcelo.

Operator

Our next question comes from Mr. Thiago Batista with with UBS.

Q - Thiago Batista {BIO 15398695 <GO>}

Hi, and congratulation for the results, very good numbers. My question is about the capital position of [ph]and in there. So if you look to the capital position now, the Bank has core capital of 12.6%, tier one of about 40%, I think 30.7%, so a very good level of capital. So with the end of the overheads is it possible to see the Bank operating with a higher leverage. So this is feasible in the near future.

A - Angel Santodomingo Martell

Yes. Thank you, Thiago. You are right, I mean we do have capital levels I presented of almost 15% as ratio and 12.6% core equity Tier 1. First, management of capital will continue to be in the line of funding that carry growth and that operational risk and market risk, which is very low by the way that we have in the bank. I have always said to you, I mean if we think of risk what is growing at around what we have today 10%, 11% 12%. And our return on equity that we have above 20%, you end up with a payout ratio around 50%. So that's kind of the general thing. Let me say with you what we have done in the first Q, and what we have announced in the second Q. In the first Q as you know, we -- the Board approved and paid by the bank BLR3 billion in dividends as regular dividends, which compared to BLR1 billion the previous year. The previous year as you know we were limited by the Central Bank. So that means that we were a little bit -- and I mentioned to you in the call to all of you that it gave kind of a signal of how we were thinking. Now the Board has approved BLR3.4 billion dividend for this -- that will be paid by the first days of September. If I'm not right but will be already in the price during July. That is already BRL6.4 billion of dividends in the first six months. These dividend payment that I'm saying to you that has just been approved, which is interest on capital -- on 100% interest on capital. These BRL3.4 billion means around 60 basis points, a little bit less, or 60 basis points of core equity Tier 1 which means that the 12.6 goes down to 12 as we speak.

So I have always said to you, I mean the 12, 11.5, to certainly we want to stay at 11, I mean this bank can clearly run at those levels of capital. But I will let you with the main idea here which is Santander on top of being a growth history -- sorry, story, on top of our growth story, it's paying a nice amount of dividends. I mean, BRL6.4 billion already over our market cap in six months is 4%. So annualized, you are speaking of 8% if we analyze it. I'm not giving any guidance on these -- on this point.

Operator

Our next question comes from Mr. Domingo (Inaudible) with JP Morgan.

Q - Unidentified Participant

Hi, good morning everyone also, and congrats on the results indeed. very strong figures. Just two questions. I think your answer to on the NII outlook is super helpful. But like I guess if you could shed a little bit more light on what's happening with the current figures I guess, more than forecast, because we're seeing basically loans are starting to grow about 15% right? And NII with clients going before, but you are adding a lot of kind of risker loans or higher spread loans, I should say. So if you could kind of share with us just like qualitatively what are the lines that are growing NII closer to loan book, if you were to break down like automobile, overdraft, credit card and unsecured consumer loans in general and corporate you can put together, and what -- or growing at 4% or below even shrinking year-on-year, just to kind of understand what are the main promoters or detractors of the NII when you're looking year-on-year?

Second question is on Getnet. I mean, you mentioned a lot of the very strong operational figures, but one thing (Inaudible) me here, and I'm sorry I haven't looked at the full release, is that EBITDA grew -- I mean, volumes grew a lot, right? EBITDA grew a little bit where earnings actually shrink. Your mix to wholesale explains a lot I guess the revenue growing less than the top line, but the question I had was on the difference between EBITDA which seems went from 640 to 730 growing, I know, 15% or 20% something like that, versus earning shrinking 20. My question is basically, if this is the interest line and if it is a substantial compression on prepayment of receivables that's booked under interest that drove this big difference between the move on the July taxes or something, or depreciation.

A - Angel Santodomingo Martell

Okay, thank you. Domingos. On the NII side, the main forces there are real estate mortgages, the real estate side, we are producing -- we have amounts of over BRL2 billion on that side. We have also payrolls growing nicely. We have personal loans also growing nicely. It has to do with mix. Okay? The answer is to you. And to some extent -- to a lower extent our car financing, but I will say that the first two are -- and that means mix, it means spread and it means volume. So that would answer you the -- On the Getnet side, you do have these kind of volatility due to expenses, it's both fees and expenses throughout quarters. I wouldn't really extract a conclusion because you have a specific things on one quarter, specific things on the other. Again, there we will give light when they become listed or close to be listed, but that is basically, you have the funding side, you said that. The anticipation I remember to you that anticipation is funded by the bank, but it is pressified [ph] nd done by Getnet. So that is something that happens and we do it through our credit assignment with co-obligation with the merchants. So that move the NII, moves below the NII. And what we have extracted basically fees and expenses with that volatility between quarters. I think we have time for a last question -- is there a last question on that? No.

Q - Unidentified Participant

Thank you. The Q&A session is over and the hand over to Mr. Gustavo (Inaudible) speaking for his closing remarks.

A - Angel Santodomingo Martell

So, thank you. Just want to say a big thank you to everyone for joining us in our second quarter conference call. And I also would like to reinforce personally myself and our IR team are fully available whenever necessary. Thank you again, and very good day. Bye.