Q3 2020 Earnings Call

Company Participants

- Andre Parisi, Head of Investor Relations
- Angel Santodomingo Martell, Chief Financial Officer, Vice President Executive Officer and Investor Relations

Other Participants

- Jorge Kuri, Analyst
- Marcelo Telles, Analyst
- Thiago Batista, Analyst

Presentation

Operator

Good morning, and thank you for waiting. Welcome to the conference call to discuss Banco Santander Brasil SA's Results. Present here, Mr. Angel Santodomingo, CFO; and Mr. Andre Parisi, Head of Investor Relations. All the participants will be on listen-only mode during the presentation, after which we will begin a question-and-answer session when further instructions will be provided. (Operator Instructions) The live webcast of this call is available at Banco Santander's Investor Relations website, at www.santander.com.br/ri, where the presentation is also available for download. We would like to inform you that the questions received to the webcast will have answering priority. (Operator Instructions) Each participant is entitled to ask one question, if any further information is required, please re-enter the line.

Before proceeding, we wish to clarify the forward-looking statements may be made during the conference call relating to the business outlook of Banco Santander Brasil, operating and financial projections and targets based on the beliefs and assumptions of the Executive Board as well 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 has 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. Andre Parisi. Please, Mr. Parisi, you may proceed.

Andre Parisi {BIO 21511610 <GO>}

Good morning, everyone. It's my pleasure to welcome you once again to our conference call. As a growth company, we had another strong quarter, which will be presented by our CFO, Mr. Angel Santodomingo.

So now I turn it over to him.

Angel Santodomingo Martell

Thank you, Andre. Good morning, everyone. Thank you all -- you all for joining us this morning to discuss our third Q 2020 earnings results. I hope you are all doing well.

Given that it is one year since what Investor Day, added to what the society has gone through in this year, in 2020, we have included a first part in this quarter presentation in which we update our study. These will be followed by the traditional results presentation that I will share with you. So, I hope that you follow me through this first part of the presentation.

Next slide, Slide 4. Santander's growth history in Brazil is based on a number of transformations. The last five years have been important for us to get to where we are today. In 2016, we started to transform our branch network, while establishing a strong and perennial culture. It also marked the beginning of our new consumer finance goods and services unit. We accelerated lending during a period when the market receded. Our contrarian strategy to turn out to be the right one. In 2017, we introduced the NPS, the Net Promoter Score because we figured it wasn't enough to change our culture in service, we needed to measure our customers' perception on the quality of our work. Since then, we have reaped positive results and we started appearing in performance rate rankings.

Improving our operational efficiency, we managed to end 2018 with a return on equity of 20% a gain compared [ph] to market. Last year, we launched several platforms that are currently at the helm of the industries in which they operate, and yet again, we anticipated market trends as we reduce our exposure to uncollateralized lending as well as accelerated another efficiency program based on expectations of a more challenging 2020. And we enter this year prepared for to overcome obstacles and we have delivered solid results throughout the year. Going forward, we are entering a new cycle even more obsessed with efficiency and a stronger growth.

Next slide, our performance speaks for itself. We have achieved substantial gains in profitability from 12.8% return on equity in 2015 to the 21.2% that we are presenting today. Despite all these difficulties, our return on equity has remained a stable in the last quarter at quite attractive levels. With net profit growth in 2.2 times in five years, we'll reach BRL14.5 billion mark in 2019. Probably most importantly is that our surge in the credit market is currently around 10%, which means that we are ahead of the industry, earning 17% of the profit pool. This was only possible things to increase productivity and efficiency gains, which have allowed us to grow in a lean and profitable manner.

Next, slide number 6. As mentioned earlier, in 2016, we begin our cultural transformation. It wasn't a quick process, but rather a journey that has required a lot of work over the past five years and which is constantly evolving. Our culture is based in four pillars; saving up quick time to market combined with the ability to capture opportunities, industrializing our processes, encouraging new ideas and knowing how to do things differently, and finally thinking about the future and the environment in which we operate.

Next slide we are a bank that for a long time, this is not new, has focused on sustainability. Together with two other major private banks in Brazil, we launched the plan Amazonia to help the region prosper in a sustainable way. We have also relaunched our Ethical Fund, which was first introduced to the market back in 21 -- in 2001, sorry, and uses properly ESG criteria for selection. So, far this year, we have supported BRL19.3 billion social and environmental enterprises leveraging a wide array of projects from microfinance, primarily through Prospera to large infrastructure investments. We have stopped -- stepped-up sorry, our social action programs such as Maes da Favela, which raised seven -- really more than BRL7 million and helped 26,000 families. In addition this month we launched another edition of the Amigo de Valor campaign, Brazil's fourth largest program to protect children and teenagers at risk.

So, going to next slide, we believe that banks and technology cannot be understood separately. This is why we have developed new businesses and new shoes to cut through emerging opportunities. In two slides let me go to them.

Next slide number 9, in line with our core expertise of lending and managing portfolios in October of last year, that's 12 months ago, we introduced two platforms that are already leading in their fields. Sim, a straightforward lending platform focused on individuals with the ambition of reaching a portfolio of BRL10 billion in five years, that is ten-fold. In the field of debt renegotiation emDia has already attracted 3.3 million customers, thanks to an intuitive journey. It has the potential to achieve an EBT, earnings before taxes of BRL0.5 billion in five years.

Next slide, number 10, we are also reinventing the way of doing business in these areas. We recently announced the combination of total MP pending regulatory approvals, one focused on equities and the other on fixed income. This move will help us better serve our needs that is rapidly growing, the influx of individual investors into the Brazilian stock market. Santander Auto has arrived to further strengthen our automotive solutions ecosystem with a frictionless fully digital insurance often during the financing process. Its penetration in financing applications has already exceeded 15% and will continue to increase considering that it also has just over 12 months' life. Then our benefits platform reached breakeven within just one year of its creation. It currently has more than 310,000 partner establishments in over 160,000 cards issued.

So, up to here I explained you what we have created recently to provoke and have new growth in the future. But I also want to share how we at the same time had grown -- have growth to come from our current portfolio of businesses and studies. Let me divide this in three big concepts; high growth, products and services growth, and country side expansion growth. Starting with the first concept over the last five years, we have grown our active customer base by 71% to more than 27 million clients. And we have add more than 1.3 million active customers in the last year and 660,000 digital account holders. More important than growing is growing with quality, our customer-oriented the strategy is core in this. So, our NPS, an indicator that as you know measures customer satisfaction has increased by four points in the last 12 months to 62, an outstanding level, considering that we started close to 40 [ph], two years ago approximately, and in comparison with any other bank -- or other banks worldwide. And this has happened through the pandemic when clients needed banks the most.

Slide 13, next slide. So, the utilization is important. We also had that idea. We offer to our entire customer base this alternative. Today, 87% of transactions are made via digital channels compared to approximately 65% five years ago. In the last few years, our e-commerce sales have grown importantly, close to ten-fold. And we continue to progress. We expect to end the year with a shade of about 40% of digital customers among our retail customers, a much higher penetration rate compared with the past. The combination of all these factors has allowed us to see an increase of 32% [ph] in the number of new contracts originated through digital channels since the beginning of the year.

Next slide, I spoke about our first growth engine, clients. Now, let's focus on the second one, our products and services -- our current products and services. In an increasingly competitive industry, combining innovation with technology is key to enable ongoing evolution and growth.

In the next few slides, we'll discuss each of our core businesses, how we have managed to differentiate from the market and grow at a consistent pace. And starting with Santander Consumer Finance, this unit is a success story with over the past five years -- which has grown over the past five years against the market trend, showing that it is possible to run a highly profitable operation in this segment when supported by adequate risk models and a strong commercial efforts and with an NPS of 83 points. We have expanded at above market rates achieving a 25% share in August of this year. We have built a winning ecosystem together with Webmotors, the leading online car buying and selling platform in Brazil with more than 360,000 vehicles listed and 12 million unique visitors per month.

We are an industry -- we are industry leaders and pioneers a fully digital (inaudible) have helped us to recover during the pandemic period. Due to our strategy in the auto sector, we continue to leverage cross-selling opportunities within the bank, which is one of the growth opportunities I presented to you 12 months ago in our Investor Day. An example already as a fact is the current rate of more than 18,000 new account openings per month, which should lead us to a full year total of 350,000 accounts in 2021.

Moving to the next slide, today, we are one of the significant players in the acquiring market. We went from a market share close to zero around 3% or 2% seven years ago in 2013 to 30% now in this quarter, and we expect to close each year -- this year with 15%. Getnet was one of our acquisition in this industry and we have conducted its transformation process by creating a broad range of products that cater to all customer segments, which has allowed us to build a strong active base, while aligning our profitability study with market growth. We have the lowest cost per transaction in the industry. With the rebounding economic activity, we saw turnover increased by more than 32% year-on-year, three times higher than the market. Looking ahead we want to set ourselves apart in e-commerce services, a process that we have already began in recent years. As a result of this new direction digital turnover compared to our total turnover jumped from 11% to 22%, at the end of the 3Q 2020.

Moving to cards, in the next slide, cards had an important growth engine of our business. We have strengthened our strategy to grow in a profitable way. We launched the Santander Way app, positioning ourselves to offer the best digital self-service and payment experience. In a short time, we have reached 8 million active users of the platform along with an impressive NPS of 82. We have advanced at an accelerated pace through pacing the market, which has allowed us to expand our card base by 50% over the last five years, while doubling turnover. Growth numbers in general in the slide, I think speak for themselves.

Federal loans in the same -- in the next slide have also been one of the major growth drivers of the collateralized individual loan book in recent years. A little part of our strategy of expanding in safer, longer duration loans, which provide the benefits of customer loyalty, and cross-selling opportunities as well as high profitability. As part of our enhanced focus on digital channel, today, more than 85% of new loans are granted electronically delivering a satisfaction rate and NPS as you can see in this slide of 88 basis points. Our market share has climbed six percentage points to 11.4% as a result of a strategic commercial efforts, with our portfolio expanding by more than two times -- 2.4 times compared to the market growth of just 52%, so 240% against 52%. Let me remember you that this was an almost inexistent business some years ago in our bank.

On the mortgage side, next slide, we have taken the lead and since 2018, we have been first movers in the segment. We pioneered the fully digital end-to-end offer anticipating the needs of our customers. This in turn, has reflected the high satisfaction levels and contributed to a 50% decrease in lead-time. This is -- time-to-market obviously. We have grown at a rate of four times -- 4.3 times higher than the market in the last three years, reaching for the first time in history the BRL2 billion mark of origination in last September -- in this September, an unprecedented level among private banks. Last but not least, our home equity product Usecasa continues to gain traction in mortgage loans compared to last year same period; our origination has grown twofold, capturing over 32% of the remuneration of the market -- as a market.

Speaking about investments only through excellence in service and innovation, it is possible to continue growing our investment products in a sustainable manner. With that in mind, we have directed our efforts to building a complete model. This experience ranges from offering advisory services to innovate solutions and dedicated investment platforms. Our recent example was the acquisition and merger of Toro and Pi, our way to complement and accelerate our operations in the investment industry. Our ambition is to achieve a market share of 11% over the next three years. You will in see our liability numbers already some of these efforts reflected.

By redesigning our wholesale offering, in Slide 21, we encouraged the use of specialized services and provide portfolio management assistance to optimize the profitability of our customers. With that we offer a variety of value added products, which provide a full solution for large companies enabling us to effectively promote our Cross-selling proposals and make a steady progress on several product fronts, from payroll to transactional services.

The next slide and by playing a leading role in innovating, we were able to position ourselves in new markets. Some examples are energy trading market in which we gain presence over the same period of time and have already delivered solid results. Launched last year, we are already the largest agricultural commodities desk in Brazil. We have opportunities to multiply five; six fold this result in a few years. Employee finance, we have reversed more than BRL220 billion portfolio of investments, in addition to advising more than 250 bills in the last years. We have become leaders in this segment. And finally, we are the country's largest ForEx platform, pioneers in creating a fully digital journey for companies to close exchange contracts, while offering one pay ForEx for individuals, the only blockchain technology and instant settlement.

And finally, in the next slide after speaking about client growth and products and service growth, the third growth engine is our move to the inner part of the country. Again, moving in the opposite direction of the market, we bet on the study of expanding into Brazil's countryside, opening smaller and less costly branches in more remote cities, as well as segment dedicated stores such as Agri and Prospera. We also continue to move towards being the go-to bank for agribusiness, expanding into Brazil's countryside as mentioned with more than 40 agri-stores in over 300 segment dedicated branches. As a result, over the last five years, we have tripled our agri portfolio achieving growth nine times higher than the market. We expect our agri portfolio to reach BRL30 billion in 2022. And on the other side with a model that has proven to be successful, Prospera, our microcredit program has reached a portfolio of more than BRL1 billion with over 99 stores in more than half a million -- 540,000 active customers who have the potential to increase this portfolio by more than two times in three years.

So, going already into the pure results presentation, I wouldn't really repeat these because the Group -- Santander Group has already presented their numbers. Santander Brasil accounted for 30% of the group's earnings, so in importance of the performance of the Brazilian subsidiary to the group. In at the same time, the South American region accounted for 41% of the total results.

On Slide 27 would be centered the key lines of our results. On the revenue front end, NII rose 9.6% in the in nine months relative to 2019, reflecting good evolution of our loan portfolio, while on our quarterly comparison, net interest income dropped due to mix, lower spreads, and lower market activity results. Fees, on the other hand, had a solid performance compared to second Q 2020, driven by higher transactionality levels as a result of economic activity. The other is returning to normal after the peak of the pandemic.

On the cost side, after booking an extraordinary provision as you know in second Q 2020, which we maintain is sufficient to cover expected losses, recurring provisions are now recovering to regular levels, falling 13% Q-on-Q or 55% if you consider the extraordinary provision. General expenses grew below inflation on a year-on-year basis, leading to our efficiency ratio to remain below 37%. We closed the quarter with net income reaching almost BRL4 billion -- BRL3.9 billion, a sound recovery from second Q.

On Slide 28, we show our NII evolution, which totaled BRL12.4 billion in third Q, representing a compression of 9% Q-on-Q and 10% expansion in the nine month comparison -- in the nine month's comparison. Customers' NII decreased by 4.5 Q-on-Q with product NII slowing down on the back of mix and spread production. On the other side, we had good positive volume dynamics, which you will see in the next slide. Working capital delivered weaker results given the lower selling rate obviously. And after a strong last quarter, NII from market activities return to a more normalized level.

Next, we'll take a closer look at our loan portfolio as mentioned. It reached over BRL400 billion at the end of September increasing 20% in the year and 4% Q-on-Q. The highlight of the quarter was the change in credit mix with the Individual segment recovering supported by steel solid performance for mortgage and payrolls, as well as a rebound from credit cards. Consumer finance bounced back to positive growth expanding 2% Q-on-Q. Thanks to our leadership in the Auto segment.

It is interesting to note that if the SME portfolio experience solid Q-on-Q growth, mainly due to the higher demand for credit from government programs. The Corporate segment presented a Saia contraction of 1% Q-on-Q after a very strong second Q 2020 that you surely remember. The 12-month number saw this fast growth registered last quarter, second quarter. And finally, let me quickly underscore that 68% of individuals loan book is comprised of collateralized loans, a major advance compared to last year in practically a stable when compared to the second Q.

Keeping track of our portfolio of the first loans that we presented obviously, for the first time in the previous quarter, this portfolio totaled BRL46.7 billion, that means a drop of approx BRL3 billion in the quarter. This amount was concentrated in our portfolio of loans to individuals and unsecured products. So, improving the portfolio risk profile The 15 to 90 days NPL in the differ loan portfolio reached 5.1%, given the portfolio breakdown which as you see almost three-fourths of individuals in one-fourth of SMEs and corporates. It has an indebtedness or ratio in these 15 days to 90 days higher but very close, quite close to our total bank portfolio, as you will see in a couple of the slides. It is important to rate that more than 50% of individuals differ portfolio is collateralized, with 90% of all loans rated between AA and C, which are as you can imagine the better ratings

Going -- moving to funding. Here you can see how our funding has increased in a strongly improved both in quarterly and annual terms. Most of its components performed well, except for the most expensive instrument, financial bills, letras financeiras, which we downsized as a way of improving funding costs. With the COVID-19 outbreak, we witnessed both times the positive more and apply to quality movement, fast benefiting on balanced funding, instruments and explaining part of the emDia renegotiation. These dynamic is in line with our strategy of optimizing our funding costs in volumes at levels that support our loan book growth. And suppose what I commented in the strategic update about our investments approach.

Fees, on the next slide, we see how they have possibly evolved -- positively evolve in the quarter, growing 16% Q-on-Q, stronger economic growth or activity and better transactionality levels reverted fees back to our trends mostly on cards in acquiring securities brokerage and placement, current accounts and lending operations, for example.

On the following slide, we may see Santander's asset quality. Short-term NPL is slightly deteriorated, but in a controlled manner in other very reasonable levels if we compare historically. We still see control figures on the early stage. The 90 days NPL maintain at good evolution given current market conditions and decisions taken during the pandemic. As an important highlight, I would like to underscore the 307 coverage ratios, such a conservative level combined with a good performance of the deferred loan portfolio that I showed to you a couple of slides ago sustain our view that this is unlikely that we will have another round of extraordinary provisions.

On Slide 34, you can see how loan loss provisions starting perform in the corner. Provisionals return to a more stable path, dropping in the Q-on-Q combination and coming back to very reasonable levels. In addition, we delivered an improvement on the recovery of unpaid loans. The red part of the columns as you can see. It is important to highlight with recoveries that we are acting faster in a deliberate and anticipated way with this part of the portfolio.

Next, we see how our expenses have trended in the quarter. Total expenses grew below inflation in the period rising 2% in 2020, compared to 2019, a leading our efficiency ratio to stay around same levels. We continue to make good efforts controlling costs, with some initiatives that started before the pandemic outbreak as mentioned already in the previous slides. As it has been during the last years, we continue and will continue to try to improve efficiencies.

Moving on to capital and liquidity, we continue to have comfortable numbers to face the scenario that we are going through. On funding, we reach a loan to deposit ratio of 88% approximately, a significant improvement on an annual comparison. At the end of September, our BIS ratio reached 14.9% with the core equity Tier 1 above 12%, a level in line with our mid-term objectives.

Looking at our main indicators in the next slide, we present a positive evolution in third Q. I already commented on fee section, references also starting to clearly recover, positively influenced by stronger fee figures, while our profitability remains at healthy levels. This is with our return on equity ROE above 21%.

So my question -- our remarks to start by reiterating our commitment to supporting our customers, employees and society, while delivering good profitability growth to our shareholders. We rely on a strong business model supported by the engagement of our employees and our third perception of business cycles. A solid combination that has allowed us to react quickly and capture market opportunities in advance.

I would like to thank you everyone for the attention in this longer than usual quarter presentation. And now, we are available to answer your questions. Thank you.

Questions And Answers

A - Andre Parisi {BIO 21511610 <GO>}

Okay. Now we're going to start the questions we received from the webcast platform. And the first one comes from Mario Pierry, Bank of America. Can you discuss the behavior of your re-programmed portfolio as the grace periods are expiring?

A - Angel Santodomingo Martell

Yes. Thank you, Mario. Well, I already gave him the presentation some of the numbers, let me go through them. First idea is that the portfolio has gone down BRL3 billion. So when we first presented this portfolio it was in July, as you remember, it was close to BRL50 billion, now is close to BRL46 billion or BRL47 billion. So, first, it's going down, clients are paying.

The second idea is, I gave to you the yearly arrears [ph] 5.1%. If -- remember, almost 75, three quarters of the portfolio are individuals, 25% are companies and SMEs. So the 5.1% compares quite possible is in line with the yearly arrears that we have in the bank. If you see the individuals, yearly arrears in this quarter we were 4.6 close to the 5.1, but we have had a 6, or 5.2, or 5.7 just in the last 12 months. So the portfolio is behaving in a natural way. In fact, the BRL3 billion that we saw as a net going down has been concentrated in unsecured loans and individual so improving the risk profile of the portfolio. But let me give a little bit more details on the portfolio on top of what I mentioned in my speech.

The NPL over 90 is below 1%. Okay. Remember that the bank has 2.1%. I repeat the NPL over 90 is below 1%. Obviously, the portfolio has to evolve, but by all means, the portfolio looks that it is performing even entirely to some extent better than expected. And this is why I mentioned that we do not expect further extraordinary provisions.

A - Andre Parisi {BIO 21511610 <GO>}

Okay. Next question is from our Otavio Tanganelli, Credit Suisse. How comfortable is the bank that there will be no requirement of additional provisions in coming quarters, our current level of coverage enough?

A - Angel Santodomingo Martell

Thank you, Otavio. Well, 307% coverage ratio looks conservative to us. As you will know, and I always have said with you, but for us coverage ratios and outcome, we do not get an objective in terms of we have to reach certain level or whatever. It's an outcome of how we classify our portfolios? How we rank them in terms of not only their regulatory needs, in terms of provisioning, but also according to our risk model. So it comes out to be about 300. I will say, it's quite a large number. But also it means that we are comfortable with the balance sheet strength that we have, which includes, by the way, the extraordinary provision that we made in second Q.

I mentioned in my speech that we do not expect to make further extraordinary provisions. If you add what I mentioned with the renegotiating portfolio, the BRL46 billion, I gave all the details just in the previous question to the 300 plus coverage ratio to the fact that we provision these BRL3.2 billion extraordinary in the second Q, we provision another BRL3 billion in 4Q last year. I mean, I think that the strength of the balance sheet is there. We will have to wait. We will have to see. I mentioned the same thing in the second Q results that we will have to wait and see how everything evolves, the economic trend and momentum, et cetera. But we are comfortable answering to your question. We are comfortable both with the coverage and with the provision. So returning to business as usual in terms of provision.

A - Andre Parisi {BIO 21511610 <GO>}

Okay. Next question is from our Victor Schabbel, Bradesco BBI. In the quarter, we still identified an increase in the renegotiated portfolio, while the provision expense has a red corrector as well, what best explains this behavior?

A - Angel Santodomingo Martell

Well, in fact, if you see numbers in terms of provisioning and recoveries, provisioning -- gross provisioning is -- has returned to similar levels to the pre-extraordinary provisioning in second Q. And as I mentioned also in my speech recoveries are performing positively. I think, recoveries are a basic part of the business, and we have developed a lot that area. You have to have a lot of intelligence there. It is not just call calling, it has a lot much more than that. We have a specific teams working there. I spoke about emDia, which is an specific -- subsidiary or unit, but we also have a specific teams in each of our areas, which are working on recoveries.

So, if you are a lot with the specific effort that we tend to do in the 60 days to 90 days, but also in the early -- also in the pre-early, you have to deliver -- you have to develop -- sorry -- you have to develop these kinds of intelligence, so that it really works. Let me put I guess a very good example. Loop and Troca+Troco, the two things we have somehow knew in the Auto finance business. Loop is a park and sell subsidiary, that we have 50% participation along with Gestao de Patios. Loop is helping the recoveries in terms of selling cars in a secure place, which is a place where you park the car, or you recover it and you put it there to sell.

Troca+Troco is something that we have started in July. This is that you have a car financed, you start to go through difficulties and you can go to one of our 50,000 dealers that we have agreed with them to do it. You go there. You deliver your car. And you go out with another car obviously of lower stand end with money, because of the difference. This has been a total success. We are doing more than 3,000 cars per month in this and it's just three months old, because it's a way of recovering also. It's a way of recovering in partnership with our car dealers. So these kind of experiences that are happening all across the bank with intelligence being close to the client, being capable of understanding the situation and giving solutions, not only trying to recover the cars in the old way manner are being successful. So that -- this is helping, obviously, it is clearly helping on the production side and will continue to do.

A - Andre Parisi {BIO 21511610 <GO>}

Okay. Next question is from Jorg Friedemann, Citi. The Bank is currently the best capitalize among the Brazilian large banks with the CET1 at 12.3%. How should we face your dividend policy, a recurring dividend payout?

A - Angel Santodomingo Martell

Well, I mean, you're right. We are about 12% core equity Tier 1. We announced yesterday an interest on capital dividend that will consume around 20 basis points. So we are speaking there roughly 12.1% before generation of profit in October. We have several variables here. First, as you know, we are limited this year to 25% leverage. So that's given. And we are adjusting our interest on capital or dividend payments to that maximum level established by the Central Bank here in Brazil.

Now, these expires in December, after that, we will continue to manage the capital in the same way we have done in the past, which means reasonable levels of capital and we have always say it around 12%, we have been in 11 point -- I think it was 11.4% or 11.5%, we have been in 12.6%. So around these levels, I think that levels so far as I said 11.5%, 12% et cetera are levels that for the current Brazil are more than enough or are quite correct in terms of maintaining a capital ratio. And the other variable is clear is return on equity to end up in risk weighted assets growth, to end up in a payout. So we will adjust that payout.

The general kind of thinking in the past has been that as you see we have return on equities about 20%. We have risk weighted assets growth around the 10%. It can be 12%, it can be 8% depending on the moment that we around there, which leads us to an around 50% payout. But it's not written in stone given that the main point will be how much do we want to grow, in terms of risk weighted assets in the future, I don't want to put in risk growth -- future growth because of any decision in a moment of time. But having enough capital to fund that risk weighted asset growth in the future will be our main kind of way of acting here.

A - Andre Parisi {BIO 21511610 <GO>}

Okay. Next question is from Marcos Assumpcao, Itau BBA. What the outlook for fee income in 2021? How does PIX Central Bank platform affect this line in the short term?

A - Angel Santodomingo Martell

I mean, we have always said and this is why I dedicated on the strategic side, I dedicated two or three slides to the active client growth or linked client growth. This is key and this is little vital for you to understand our growth. We have continuously increased number of linked of active clients. We are in 27 million now. We were almost half of that five years ago. We are growing above 100,000 clients per month. I mean, the intention here is to create that income, that inflow of active clients and at the same time, making our current clients obviously more linked. And this is what will drive fees, which is basically transactionality. If you see in the quarter, all concepts in Q on Q, all concepts are growing nicely. You have -- I don't know cards over -- are around 18%, you have asset management picking up again at 16%, around lending operations more than 20% or even securities more than 60% for a total of 16% Q on Q, which is pure transactionality and this comes from our linked clients. So variable to follow linked clients.

Second point on the PIX side, we are just starting next say November 16, is when the PIX starts to be live, if I may say like that. As you have seen, we have created using the PIX system from the Central Bank, our own trademark is x, which is the commercial number for that PIX system. And we will offer it to our clients we are already offering it to register et cetera, we will see impacts. Obviously, they will say but also, clients will be again more linked and more active with the bank. So both trends will probably tend to offset. But I mean, I cannot give you a number now because it's really too early.

A - Andre Parisi {BIO 21511610 <GO>}

Next question is from Thiago Batista, UBS. Santander Brasil has not reduced its over hedge, at least not the equity abroad. Can you comment on the future dynamics of the over hedge?

A - Angel Santodomingo Martell

Yeah. Thank you, Thiago. Well, I always said no, I mean, we have the position that we have. We have a new regulation running and being applicable for the end of the year and for next year in which that situation will be reverted. And we will adjust to that situation. This is a no -- obviously no doubt about it. Up to that point, we have reached levels in which we thought and we think are the appropriate levels for these banks. So you're right, this is the situation.

A - Andre Parisi {BIO 21511610 <GO>}

Next question is from Gustavo Schroden, Goldman Sachs. Some of your private peers are indicating that expense can decline in nominal terms. Is this possible for Santander as well? What should we expect in terms of operating expenses and efficiency ratio in 2021?

A - Angel Santodomingo Martell

Well, here we have always said, I mean our -- if I may say like that our fire is against inflation as a headline, but the real one is a continuous efficiency effort as a bank. As you know, we are the most efficient bank today, considering second Q results, obviously, we will see with third Q, but we have maintained more or less the same efficiency levels are on 36%, 37% or below 37%. Remember -- I mean, remember last year, both in the Investor Day and throughout the current -- the quarterly results, underlying that we were going into another round of cost efficiency without obviously knowing anything about the COVID et cetera. This is something that is on our DNA, I mean, this is something that the bank has proved during the last years. I have spoken with you a long time, a lot of times around industrializing processes, time to market, et cetera. And we continue to do so. And we will continue to do so.

We still think there is a space. And we think that the bank has a still capacity of making processes leaner, of making quicker time to market. I spoke about the mortgages. Mortgages are 50% quicker time to market now that they were 12 months ago, or 18 months ago. And this is just another improvement in efficiency. I always say with you also knowing the unit cost, Getnet is the lower unit cost for operation in the market and this is something we started three years ago, four years ago. This is not, you do not do that in a quarter. So, trying to answer your question. Yes, there are more space. We will continue with that focus and we will try to continue to maintain very attractive or even better, we will see levels of efficiency. That will also depend obviously on the operative leverage of the P&L referring to the growth of revenues, but we will try to keep that leverage quite open or the jaws of revenues and costs quite open, so that it is reflected on the efficiency ratio.

A - Andre Parisi {BIO 21511610 <GO>}

Okay. Next question is from Tito Labarta, Goldman Sachs. And spreads have been declining. Do you think there will continue to be pressure on spreads or are the -- or they are near the bottom?

A - Angel Santodomingo Martell

You can -- as you look at the spread discussion and the mix discussion, not here as I mentioned in the NII presentation. On the spread side, we have seen these and depending on the quarter, depending on the segment, probably the situation -- and we have also seen sorry, the regulation impacts that I have mentioned in previous quarters. I think that this is something that each of the banks have to try to maintain in the future, but we will get pressure, we will have pressure. And this can be offset through several ways, through a limited volume in terms of that dilute salary, the return on risk weighted assets. But adding what I said before fees, and clearly controlling costs and the cost of risk, as we have done in the past.

But I mean, it's a little bit of a general question, a general answer, but depends on the product, depends -- you have products in which we are clearly stable. We have position in the market in some areas in which we lead the market. And we have spread clearly above our peers and we maintain that position. Because all the offer, all the services that are being offered are there and are being received. So I mean, tell you from mix [ph], but I would say that speaking of NIM, on the asset side, some pressure will be there. Yes.

A - Andre Parisi {BIO 21511610 <GO>}

Next question is from Carlos Gomez-Lopez, HSBC. Is the acquisition of Toro fully reflected in this quarter results? Are there any deferred payments to consider? What additional investments or integration charge does the business require?

A - Angel Santodomingo Martell

No, Toro is not reflected in this quarterly results. We signed and we will be hopefully making the closing before year-end depending on regulatory approvals and the normal processes that these type of operations require. This is an operation we announced in which we thought Toro management and shareholders also are in the same direction that putting together with we had a lot of sense in terms of thinking of the Brazil we are going to live in the next years. We are very positive about the operation and how this provokes the positioning of the bank in this type of platforms. And we will -- probably I will say that you will see the integration of Toro in between fourth Q and first Q. I don't know, as I said depending on the regulatory approvals. Okay.

A - Andre Parisi {BIO 21511610 <GO>}

Next question is from Domingos Falavina, JPMorgan. Getnet were up 30% year-on-year, but card revenues were slightly down. What drove it; MDR, interchange, or prepayment spread?

A - Angel Santodomingo Martell

Well, first on the acquiring side on Getnet. Getnet is strongly improving markets, volumes, transactions, et cetera. That has to do with several parts of its business, I would say basically the three parts in which that income is coming from. Performance in October continues to be absolutely strong. We are very positive that the subsidiary Getnet will reach the 15% I mentioned of market share in terms of activity. We are strongly moving on the eCommerce side. I mentioned in my speech the growth that we are seeing in terms of tenfold et cetera on the eCommerce side. And I mentioned with you in the last years -- in the last quarters, Getnet has been investing in trying to kind of increase or open a little bit the wide range of services that we have been offering.

On the card side, the discussion is different, Domingos. On the card side, the year-on-year evolution is strongly impacted in between other things, but is strongly impacted by the second Q. Remember that in that Q we suffered, everybody suffered very low level of transactionality. So, you have a negative number on the 12-month above 10% and at 17% or 18% increase on the first -- on the Q-on-Q, on first Q again second Q. So, the trend is positive. I mentioned also digital transactions, et cetera. We are seeing already a strong card activity both from current accounts and non-current account both on the digital side and on the non-digital side. So I think that the trend will continue in the positive, but it's a little bit of a pull to at the moment on the second Q on top of other things. We already said that.

A - Andre Parisi {BIO 21511610 <GO>}

Okay. Thank you very much for your questions through the webcast platform. Now we are going to open to receive questions via phone calls. Okay, So, let's just start.

Operator

The Q&A section via telephone is open now. (Operator Instructions) Our first question comes from Mr. Marcelo Telles from Credit Suisse.

Q - Marcelo Telles {BIO 3560829 <GO>}

Hi, hello everyone. Thanks for the time. I have a few questions. The first one with regards to your NII evolution going forward, I mean you've seen your NIM and NII under pressure this quarter both on the client side and on the treasury side. How should we think about your NII evolution from here on? Should we expect -- do you expect to grow more or less in tandem with your loan portfolio or are there any headwinds that may lead that to grow at a lower pace? And the other question is on the -- on your operating expense line, I mean you had a nice decline in the other operating expenses. I was wondering if you could tell us how sustainable that lower -- the new lower level of other operating expenses is going forward? Thank you.

A - Angel Santodomingo Martell

Okay. Thank you, Marcelo. On the NII, I already elaborated a little bit on the previous question on this pressure. Let me see here, I mean you have several parts. On the asset side, I mentioned you have a mix kind of movements and the volume movements. On the mix, we have seen more collateralized activity in the last quarters, which means that you end up with an NII net of risk better but within our growth NII with pressure in terms of NIM that you were asking. So, the full picture is net of risk. This is very important for you to understand. We have other problems by regulation. For example, the (foreign language) overdraft that suffered and that started last January if you remember. So for the time being, that continues to have the same effect on a 12-month rollover basis. And moving more to the corporates and large corporates, et cetera; what we have seen is longer duration in general terms.

Volumes, as you saw on the quarter are relatively stable. So if I wrap it all up, what I would say is NII given volume and what I mentioned to you should maintain positive trends, NIM on the asset side should be somewhere there. Okay. On the liability side, we have seen a strong growth that is due to volume, but also due to the spread in the funding cost that I mentioned. We are strongly reducing letras financeiras. I remember to you just some quarters or year-ago, year-and-a-half ago; we have more than 65 billion letras financeiras. Today, we have 17 billion. I would not be surprised if we go below 10 billion next year okay and that is funding cost. So on the liability side, we have a strong inflow of on balance sheet and I'm speaking off side, I'm speaking (foreign language), I'm speaking of term. So, good volume and good spreads there. So, total NIM, total NII; I would guess some positive territory is still to see offset with what I said to you before; fee growth, et cetera.

On the second one, this is a volatile line by definition. I mean this is not a -- so if you see -- let me take the last four quarters because I think it's a little bit more valid than just one quarter volatility. In the last four quarters, if I'm not wrong, I think it's flat or slightly down, I know it's 1% down or something like that. So year-on-year is stable, on the quarterly basis volatility. By the way, volatility the same one that I didn't mention but you ask about it in the NII on the market activity. We had a very strong third Q in market activity -- second Q sorry in market activity BRL2.5 billion --around BRL2.5 billion. But if you see the historic levels, they tend to be below BRL2 billion. So, it was more a very kind of positive second Q in market activity, more than the first Q being lower than normal. BRL1.8 billion, BRL1.9 billion, BRL2 billion, BRL1.7 billion; this is a normal level we have been having in the last -- for a very long time in the last quarters.

Operator

Our next question comes from Mr. Jorge Kuri from Morgan Stanley.

Q - Jorge Kuri {BIO 3937764 <GO>}

Hi, good morning, everyone. Could I go back to the issue of provisions and asset quality. I get it that you feel pretty comfortable with the amount of provisions that you've made and the coverage ratio that you have. If we look at your return ratio relative to your peers, you're at 6% leverage for the large cap banks, Brasil is around 8%. If we look at your coverage ratio adjusted by the renegotiated loans which require provisions, it's actually below 100%; you're at 80%, your peers are around 120%. So I understand that while assets are different and you don't have to be at the same level of your peers, but certainly you look low relative to them justifiable or not. Maybe a way for us to understand your thinking behind the provisions that you have is to get what your expected NPL will be on the renegotiated portfolio. So you're creating provisions based on expected losses. Would you share with us what is that NPL that you expect on your renegotiated loans? What do you think NPLs are going to peak relative to where we are today and whether or not that is what's explaining your level of provisions today? Thank you.

A - Angel Santodomingo Martell

Yes. Thank you, Jorge. Well, my first reaction to all what you mentioned is that obviously portfolios are not the same one. I mean I share with you the collateralized part of our individual portfolio or the type of growth that we have had in the SME segment given the government programs, et cetera. I gave all the details during my presentation. So comparing this type of little bit general ratios I think gives us sometimes the kind of the mix and the portfolio details that are behind. Speaking specifically of these BRL46 billion that we have as the moratorium or renegotiated portfolio, I think I mentioned we have below 1% NPL ratio over 90 days, we have a 5.1% the yearly arrears. I don't want to repeat all the numbers. This obviously should evolve. But I mean you are speaking, we have more than 50% of the retail part with guarantees, 83% of clients just chose the 60 days, didn't go to the 90 days and they started to pay.

So, you have other banks that go into the 120 days. We just go into 60 days and only 17% of our portfolio of the clients went to 90 days. So, we are already as we speak today with a portfolio that is kind of performing in a natural way. We are not still in a period in which you have still clients that are not paying or are under moratorium, et cetera. That's already kind of passed sometime ago. So it will increase that 1% NPL ratio -- 90 days NPL ratio, your question. It will increase during the next months probably yes, but still we are at such good levels. And here what I mention to you that that is why we think that no additional extraordinary provisions will be needed. We have the BRL3.2 billion that we made in the second Q that are at our disposal that are to be used. So I mean whatever you use, whatever ratio you want to use; we feel that we are comfortable including what you mentioned the 300-plus coverage ratio. I think I elaborated sufficiently on this point.

Operator

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

Q - Thiago Batista {BIO 15398695 <GO>}

Hi guys, good morning. I have one question about the government programs. If not wrong, so that originated about BRL10 billion or less of those programs in this quarter to the SME segment. Can you talk a bit on how those programs are impacting the bank's margins and cost of risk? So, I believe that the margin of this program is much smaller, probably the capital required is also small. So, if you can talk a little bit the main dynamics on how those programs are impacting the bank.

A - Angel Santodomingo Martell

Yes, Thiago. Thank you. Good question. I mean yes, you're right it's around BRL10 billion or even more than BRL10 billion. They are in the three main programs; FDI, PRONAMPE, CGPE. The adding of the three. You have different conditions. I'm not going to elaborate too much because it's a little bit too much detail, but you are right. They tend to have lower spread and lower cost of risk and depending on which, you tend to free some capital. The most aggressive one is the last one I mentioned, the CGPE, and the other one have different amounts of impact of capital. The end of it is that you tend to have a nice spread net of risk reasonable and in some cases you free some capital. Being the most aggressive one, the one I said to you the last one. The answer is yes.

Operator

Thank you. The Q&A section is over and I hand it over to Angel Santodomingo Martell for his closing remarks.

A - Angel Santodomingo Martell

Thank you all. Thank you for this as I said a little bit longer presentation than normal. I hope you found it useful in terms of the update considering the Investor Day 12 months ago. We are open for additional questions that you may have both at our Investor Relations team and myself. And thank you again for being there. Looking forward for next quarter. Thank you.

Operator

Banco Santander Brasil's conference call has come to an end. We thank you for your participation. Have a nice day.