Q3 2021 Earnings Call

Company Participants

- Angel Santodomingo Martell, Principal Financial Officer, Vice President Executive Officer & Investor Relations Officer, Member of the Executive Board
- Gustavo Sechin, Head of Investor Relations

Other Participants

- Carlos Gomez
- Jorge Kuri

Presentation

Operator

Good morning, and thank you for waiting. Welcome to the conference call to discuss Banco Santander Brasil S.A. Results. Present here Mr.Angel Santodomingo, CFO; and Mr.Gustavo Sechin, Head of Investor Relations. All the participants will be in listen-only mode during the presentation. After which we will begin the 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.go.br/ri where the presentation is also available for download. We would like to inform that the questions received via webcast to have answering priority. (Operator Instructions)

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 belief and assumptions of the executive board as well on information currently available. Such forward-looking statements are not a guarantee of performance, things of 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 the 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 it over to Mr.Gustavo Sechin. Please Mr.Sechin, you may proceed.

Gustavo Sechin {BIO 19841299 <GO>}

Thank you, operator. Very good morning, everyone. Welcome to our third Q conference call. Thank you all for joining this morning and for your interest. I have here with me Angel

Santodomingo, our CFO and our Investor Relations team and we will try to provide some frame to the results you have seen and some update on our strategy.

I now we -- the word to Angel. Please Angel.

Angel Santodomingo Martell

Thank you, Gustavo. Good morning, everyone. Hope you -- everybody is doing well and thank you for joining us this morning to discuss our third Q '21 earnings results. As always, I will begin the presentation with an update on our strategy, followed by an overview of our quarterly figures, and finally, my closing remarks.

First and one of the most important points of the presentation is that we continue to deliver as you may see by achieving our all-time high return on equity 22.4%. This is an all-time high. We have also been delivering consistent growth in net profit over a long series of quarters reaching BRL4.3 billion in this 3Q. Our business strategy enables us to generate sequential returns above the cost of equity still creating value for our shareholders and outperforming, for example, as you may see in the slide, IBOVESPA, the local index in the process.

The next slide, let me elaborate on how do we continue to achieve this level of return on equity. During the last quarter -- the last quarters, I have been highlighting our different customer categories ranging in the slide from right to left from those who are no longer active after 90 days to the most loyal and active ones. Two critical questions from my point of view must be addressed here. Are we continuing to expand our customer base? And second, are we succeeding in moving customers to the most profitable segment from the right to the left meaning the top loyalty tier? And the answer to both questions remains affirmative. Our total customer base grew by 9% in one year, but even more importantly, they grew 1.6 million clients, million people in just one quarter as you may see in the slide.

Our -- so these last ones, the most active and linked one which are 7.5 million clients as you may see in the slide increased by 25% in one year growing at a base almost 3x faster than the overall customer base. And one important reason to explain this evolution is customer service, which is reflected in our NPS of 62 points. Let me underline in this slide is -- still in this slide that the 1.6 million clients that I mentioned that we grew in the quarter are almost evenly divided in between those that offer more potential, again those on the left -- sorry, on the right, the ones that have less products, and those that generate 80% of the revenues who are already linked and are generating the current profitability that we mentioned.

So in the next slide, profitability comes with client growth, but also with how you deal in the different steps with those clients that we have. For example, in this Slide number 6, we present the pace at which our new customers engage with the bank and generate these profitability Considering only September, the last month, we set a record on customer acquisition growing by more than 70% in a year of which again another 70% of these 70% were acquired via digital channels and as you may see in the slide at a lower acquisition cost or CAC. However, simply opening an account does not guarantee as you know that the customer will generate revenue until they really begin transacting with the bank. Some metrics that breakdown our performance on this front are 72% of all new accounts opened in January, for example, this year were activated in six months, and 22% of those activated clients became loyal with six months also -- within six months also. What does loyal mean? It means more than six products with a client and as a result of the activation and transactionality, revenue generation nearly doubled after half a year.

So in the next slide, I have explained profitability so far through client growth and processing. But in this discussion, digital has to be also explained. The large volume of active or prospective customers who come through our channels provides us with excellent business opportunities allowing us to earn profits by combining a good experience with a low cost to serve. Through a simplified onboarding process, our digital platform has enabled us to acquire more than 60,000 customers in September, for example. So out of the almost 900,000 that I mentioned in the last slide, 600,000 came through this channel implying a rise of almost 200 plus or more than doubling in 12 months. With 1/4 of those customers being unbanked and choosing Santander to establish their first banking relationship. Considering the revenue generated by new clients acquired in August as an example, 50% came through insurance, 18% credit or 12% cards. On top of that, the cost to serve that I mentioned decreased by almost 20% year-on-year and in first Q in BRL28 that is basically less than $5, $4.

Continuing in the digital front, our end-to-end digital business model enables us to achieve new sales records while also delivering a crucial benefit to our customers' convenience when purchasing new products and services. Here, in the slide, we highlight the performance of three key products on the digital front. Cap -- capitalization rose by almost 3x in 12 months in number of new contracts. Insurance almost doubled in contracts sold this quarter compared to the same quarter last year. And finally, card sales advanced also almost by doubling over the same period. Finally, when considering the digital channel, the overall loan portfolios show an increase of almost 130% in number of contracts.

Along with the increase in origination, we witnessed a surge in customer inquiries through our artificial intelligent channel GENTE recording over 18 million interactions in just a month that is 20 is almost 3x, 267% year-on-year. Our digitalization has enabled us to transform our business model and providing us with new revenue and value creating opportunity. It is important to underline that the digital focus is also on transactionality and generating P&L. So as a result, we have concentrated our efforts of growing our transacting digital customer base, which expanded by 25% in one year translating into roughly 5x greater revenue per customer over a six month period.

Next slide, you may see customer growth and technological advancements both require people. I would like to underline in this slide as you may see in the left bottom part that 94% of our employees are proud to work here in Santander Brasil. This is not only a high level of engagement, but 11 percentage points more compared to the market. Our business is backed by a strong culture that fosters a high level of engagement, which is recognized by the market. Management is close to employees. We have held about 56 virtual events over the past six years with employee attendance reaching more than 80% of our total population in the last quarter as an example.

Regarding inclusion, women already make up 31% of our leadership positions, 27% of our employees are black and 5% are people with disabilities. We have already accomplished the goal we had set for the years ahead, but we will keep on moving. As part of the collaboration process, we incentivize knowledge dissemination with employees acting as leading figures in the training process. For us, this training is key in our model. As a result of our actions in all these fields that I mentioned, we were recognized by Great Place To Work in the women and LGBTQI categories in 2021. Furthermore, GPTW named us among the 10 best companies to work in Latin America.

Delivering -- in next slide, delivering long-term value also depends on engagement with individuals and groups that represent a wider society. In this regard, ESG has been ingrained in our culture for a long time not only in the last quarter or years as evidenced by the fact that we have had programs impacting society since 2002 in addition to being pioneers in certain markets. In the environmental field, for example, we promote sustainable businesses to our customers by providing pivotal solutions such as ESG linked loans in which we currently have a portfolio of more than BRL2 billion. CBIOs where we lead the market with a 55% served and solar energy loans in which we are also top with BRL1.6 billion in origination. Since 2018, we have facilitated over BRL43 billion in green financing and demand for more innovative products continue to grow.

Our own KPIs are also focused on mitigating environmental impacts and we share some of these KPIs publicly. We believe that we can make a meaningful contribution in this transition to a low carbon economy. At the same token, we intend to generate 100% of our electricity from renewable sources by 2025, eradicate single use plastics from our operations and use recycled PVC cards in our sales. Our efforts, for example, have been recognized with the Most Sustainable Company award by Epoca Negocios 360 degrees. We are knowledge that our growth -- sorry that our role as a financial institution is forced in sustainable enterprises, thereby helping people and businesses prosper. In this sense, we reached over 800,000 people in the last three years through our social programs earning market recognition.

Our Amigo de Valor, a very well-known program here in Brazil has already reached thousands of people all over the country being a top program in Brazil. We run the country's largest micro credit operation among private banks called Prospera with BRL1.6 billion portfolio and over 660,000 active customers. As one of Brazil's three largest private banks, we have unveiled an integrated plan aiming at effectively contributing to the sustainable development of the Amazon region. Simultaneously, we are increasing our loan portfolio for sustainable agriculture in the region by almost BRL300 million. We are also celebrating 25 years of Santander Universities.

Over these years, we have strengthened our partnership with public and private universities to which we offer academic support and grant scholarships through exchange programs. A total of 24,000 scholarships were awarded just in the last quarter, 25,000 -- 24,000 scholarships. Lastly, moving to our governance, our board is a good example of how we internalize ESG principles within the bank committed to developing a long-term strategy that will enable us to continue assisting and engaging with local communities as well as society at large.

So moving to numbers to our results on the Slide 13, we detail our P&L. We close the period with net profit of BRL4.3 billion, representing a 4% increase relative to the last quarter and more than 12% when compared to second quarter last year. Let me highlight the following figures. On the revenue front, NII grew in the quarter reflecting a better mix and a stronger market activity in the period. Fees increased by 13% over the same quarter last year. Here, the customer base growth and higher activity boosted different items such as cards or capital market revenues. On the expense side, provisions grew by 10% in the quarter aligned with credit mix and growth and 26% year-on-year. General expenses are rising as a result in between other things of the collective salary agreement, inflation and foreign currency fluctuations, but remain on the year below inflation. The efficiency ratio as you may see came at 35.7% almost stable in 12 months and the recurrence ratio reached more than 88%. And as mentioned, return on equity remains at the record highs and return on assets improved 20 basis points in the last year.

The next slide details the evolution of our NII highlighted by customer NII, which advanced by more than 5% Q-on-Q and almost 15% year-on-year with product NII benefiting from positive volume dynamics and mix. Despite the strong pressure on funding cost, let me remember you like in between 400 basis points to 500 basis points on the year higher cost of funding, spreads increased by 10 basis points reflecting a better mix and a very good pricing management. Market volatility during the quarter contributed to a positive result.

Advancing to the next slide, we can see that our loan portfolio grew by 2.4% Q-on-Q and more than 13% year-on-year to BRL450 billion at the end of the quarter largely driven by retail. Disregarding the ForEx impact, the portfolio will have grown slightly more. The impact is very marginal by 13.6% year-on-year. The individual segment continued to outperform with mortgage and credit card explaining part of the growth. Consumer finance grew by 1.7% Q-on-Q and 9% year-on-year amid a challenging scenario for the automotive industry. SME had a good quarter growing 3.7% attributable to a recovery in demand.

Corporate lending dragged down our overall credit growth given the more dynamic capital markets environment and improved liquidity conditions and it is important to note that 69% -- almost 70% of the individuals' loan book is collateralized by guarantees. But even in a more dynamic economic landscape, we showed some increase in the funding base. Financial bills increased quarterly, but continued to hover around their lowest level in history relative to total funding. At the end of the quarter, capital stood at comfortable levels. Our BIS ratio was above 14% -- 14.2% and our core equity Tier 1 reached 11.9%.

Moving onto fees. We had another strong performance supported by customer based growth and strong loyalty. The best performance in the quarter was credit costs and capital markets. Cards grew by roughly 31% year-on-year with higher transactionality and total turnover. Insurance showed a slightly decrease in the quarter, but continues to post a strong performance year-on-year growing almost 20% as usual also in activity in the digital front.

Looking at expenses in the third Q, we had a 7% year-on-year rise in total expenses below the 10.25% inflation in the period. We have conducted and will continue to conduct a thorough review of expenses given our commitment to productivity. In any case, we anticipate some cost pressure in the coming months due to the collective salary agreement, which has meant that personnel expenses are rising by almost 11%, 10.97% in September. Inflation and foreign exchange fluctuations exceeded also pressure on administrative expenses. Our efficiency ratio remained virtually stable during the year on 35.7%. At this level, this is a hypothesis, but it is possible that we'll again remain as has happened in some quarters already, the best in the industry.

On the next slide, we can see how our asset quality has evolved. It remains at a well-controlled level in the quarter with a proper coverage ratio reflecting our solid risk management. Short-term delinquency remains healthy below pre-pandemic levels, the 90-day NPL kept under control at a ratio of 2.4%. You can also see that our loan loss provisions remained within reasonable levels and also let me remind you this below pre-pandemic levels consistent with a cost of risk of 2.9% more aligned to our credit mix. This performance reflects our diligent lending practices. Recovery was quite strong as you may see at 1.1 billion in the quarter reflecting both a continuation of good management and focus. I have mentioned this in several quarters already and a sale of a reading down portfolio.

So let me conclude the presentation with the main takeaways, which I would like to underline. First, consistency, six years of profitable growth. We remain focused as may be seen through our return on equity that stood at 22.4% our dedication to building a robust and comprehensive financial platform resulted in an all-time high level of new customer acquisition. Revenues continued to grow supported by higher transactionality. Our risk model ensures that the cost of risk remains within a comfortable range. Pursuit of productivity drives efficiency to almost -- to 35% -- 35.7%. And finally, not least, our corporate culture deeply committed to grow results in society.

So thank you so much. And Gustavo, I think now we are open for Q&A.

Questions And Answers

Operator

(Question And Answer)

Thank you. We will now start the Q&A session for investors and analysts. (Operator Instructions)

I will now pass the word to Mr.Gustavo Sechin. Please, Mr.Sechin you may proceed making the questions sent via webcast.

A - Gustavo Sechin {BIO 19841299 <GO>}

Okay. So our first question comes from Gustavo Schroden from Bradesco. Thank you, Gustavo for your question. The bank had posted an unexpectedly growth in trading gains this quarter. Could you explain what has supported this growth and what -- how sustainable is the current level of trading gains? Also what is the impact in the trading games from the spike in the long term interest rate? Gustavo also had another question. Considering the weaker estimates for GDP growth next year, do you think that the bank will be able to maintain the current level of loan growth and with such positive mix, what should we expect in terms of loan growth and mix for the next years.

A - Angel Santodomingo Martell

Okay. Thank you, Mr.Gustavo, NII from market activities, treasury et cetera, yes, it has been a good quarter. Our treasury activities, however, wholesale banking activities have done, I would say a good year, but specifically a good quarter, these 2.5 -- if I remember what we had I think was second Q last year, second Q 2020 in which we also had a very good quarter. It was even larger than the amount. We have presented these in this quarter and our first quarter in 2021 was also a good one.

So as always that I mentioned with you, I mean, we do have some volatility here when things go in the good and right direction, you end up with higher numbers. This is not the highest, but it is a high number. When things -- when volatility affects you on the other side, you go down in that number. That number has ranged, in general terms, I would say from making a little bit of an averaging between 1.5 billion to 2.5 billion per quarter depending on how things evolved. Difficult to estimate your question, so it depends really on how markets evolve, but at the end of the day, this kind of quantity that you see there helps the NII, but I will clearly focus on the NII from clients that is performing pretty well.

The second part of your question, which is GDP and loan growth. Well, if we think in our 2022 in which you may have inflation, I don't know taking a little bit of the consensus of the market, I know four, five or even a little more than five with a GDP growing between 1 to 2, you end up in a nominal rate of around 6% to 7%. So I wouldn't be surprised that loan growth tends to grow at the country level higher than that obviously, with probably separating the role of private and public banks as has happened in the last years. The discussion is not only the total loan growth because that's a little bit generic assessment by my side. But also what -- how are the different segments going to grow and what we are seeing is that retail continues to present the strong and good growth while you dilute that growth as you move to SMEs, corporates, large corporates, being large corporates growing the least, probably that type of profile is what we see in '22.

A - Gustavo Sechin {BIO 19841299 <GO>}

Thank you, Angel. So, our next question comes from Mario Pierry from Bank of America. Thank you, Mario. So you show that your active client base expanded by 2.4 million in the last 12 months or 9%. Are these new clients coming from expansion into new regions? Are these clients coming from other banks or are you now able to reach the end bank and the population through your digital channels? And also your employee based has expanded by 9% or more than 4,000 people in the last 12 months, while you are branch network has declined 6% or 140%. Can you help us to understand the diverting trends in employees in branching? And Mario also has another question. Can you discuss the outlook for asset quality and loan growth between (inaudible) you have start to accelerate growth and security loans and in retail loans. But economic outlook for 2022 seems to be deteriorating and the Brazilian Central Banking showed that the indebtedness of families is at historical highs. Are these real concerns that should lead a more conservative lending stance?

A - Angel Santodomingo Martell

Thank you, Mario for such a comprehensive coverage of the different things. Let me I noted four points so let me try to address them. Growth of clients well, this is one of the main engines of Santander Brazil growth as I have been discussing with you during a long time now. So, we have positioned the bank that is able is producing these type of attractiveness for clients and we continue to have our main -- one of our main reasons to present the profitability and growth that you have seen through these type of growth. Let me try to give a little bit more light in those clients. I mentioned 24%, 25% -- 1/4 of the clients are new clients in the financial system. So these are clients that are bancarizing and we do have several channels.

We have Prospera which is the microcredit area in which, as you knows, is basically focused on clients that are in social extreme situations in which they need and they have little businesses and they perform pretty well in quality and everything. I have discussed with you the four different channels through which we acquire clients, the four of them working pretty well, the physical one, the digital one, the remote one and the external one and the four of them I can elaborate a little a bit farther afterwards, if you want on that point. I elaborated on the presentation, the digital front more than 70%, or approximately 70% of the clients that we are improving -- increasing in the quarter is coming through the digital side. But let me also give you some numbers that I didn't share with you. 28% of the client base on the digital front, we are increasing those in terms of transactionality. So the digital client base is increasing by 28% in those that are active clients, in those that are presenting transactionality. So in those that are generating P&L.

So as I mentioned in the presentation, it's not only opening current accounts is really making or having the capacity of offering to those clients this type of transactionality. And this is how the bank is positioned. Okay. So, the NPS, -- everything that you may see around Santander is basically oriented to make it an easy user experience. So that clients really use the bank. The increase in employees is basically focused in two things that I already presented to you before one is as (inaudible) the SX, which is where we have basically focused our remote channel. This is what I mentioned to you in the last quarter, the call center -- the traditional concert call center being transformed in an active selling point. We are already above five products per person and per day, being sold, this started in between 1 to 2. So this is strongly increasing and supporting our growth. And the other part is part of our movement that we made on the technical department on the operations and technology department to make a technological company that provides services to the bank. So those are the two main -- 95% of increase is that one.

The branch movements. Branch movements, as you know, what are we doing? We are continuously managing branches. We are opening small shops as we call them which are branch in any case in the center of the country, basically where the growth is and I have shared with you payback and breakeven in very short periods of time, six months, nine months which are performing pretty well. And in the large cities, we are, as always, we are managing those branches. You have branches that have been traditionally from a long time ago have been kind of merged and we still have like kind of two codes there and they are being moved to one. You have branches that are basically in the same place, but the city has moved and grown to other places, (inaudible) is a very good example, for example, in which we had five branches in almost one square kilometer. And what we did there is just maintain some of them and move the others or close in. And finally asset quality, let me elaborate here a key one point which I think is important. I mean I have mentioned to you in past quarters that we have reached very low levels of cost of credit or NPLs. So, the normal movement after this or throughout this important liquidity kind of support that has come from different places is that we recover or we come back slightly, marginally as you may see in the different quarters, the cost of credit today is 2.9%, we presented that in the presentation. This is a still below pre-pandemic levels.

Pre-pandemic levels, if you choose for example, first Q 2020 where 3.2%. So we are a still better than before the pandemic even with whatever our GDP and whatever consideration you want to. Going forward, I will say the same thing I said in the last two quarters. I mean, if we see this type of 10 basis points, I don't know, I don't want to quantify them, but if you see a slight kind of the deterioration it's kind of going back to normal levels in which we have been for a long time. Let me remember you that Santander Brasil has the lowest volatility in terms of cost of credit throughout a very long-term period of time, so we really know how to deal with risk in this business. Sorry to make a long answer but there were the four points and I think we covered the four of them.

A - Gustavo Sechin {BIO 19841299 <GO>}

Thank you, Angel. We have another question comes from Eduardo Rosman from BTG. This (inaudible) interest rate should move up 700 bps in 12 months period, a very fast and big move in a short period of time. Can you please explain what are the impacts of such change on your results? What are the benefits? What are the negatives? How asset sensitive you are?

A - Angel Santodomingo Martell

Okay. Thank you, Eduardo. Let me go through the different kind of considerations. You first have our sensitivity in terms of NIM that I have shared with you around BRL400 million for every 100 basis points of parallel move in the queue. So that is kind of stable and that will have already been there and will be there. So this is not a new kind of sensitivities that I am sharing with you. Probably the important thing to discuss is in pure NII and client NII, more than on the kind of surrounding variables. So what we will have is a better performance on the liability side. Speaking of NII, a better performance on the NII meaning more revenues on that side, more profitability coming from all where we can consider as investments or saving from a client perspective.

On the asset side, what has happened as you know, the deal curve is already imputing or estimating or like more than or around 600 basis points in the next two years. So when we are already producing in the 10-year is close to the 12% level. So when we produce, I don't know alone at, in a three year loan, the prices that we are producing are already embedding that deal curve. Now if you compare that which probably is part of your question, if you compare that with 12-24 months ago, the yield curve has moved up and that means, this is my coming back to the quality discussion and that means that obviously that effort coming from companies from families et cetera, will be harder, and this is why I was mentioning before that coming back to normalize levels in terms of quality of risk should be seen as a normal kind of movement because again, we are clearly below, historic averages in a very good point in terms of. But the important thing again is that you maintain positive operating leverage in terms of revenues in both provisions and costs that you are able to maintain a spreads as we have -- as you have seen we presented I think was 10 basis points or 20 basis points Improvement in a spread in the bank, and that embeds 400 basis points to 500 basis points of increase of cost of funding. So we are managing the situation, but the effects are the ones that I try to summarize.

A - Gustavo Sechin {BIO 19841299 <GO>}

Thank you, Angel. The next question comes from Marcelo Telles from Credit Suisse. Cost of risk, risk increased sequentially. Do you expect for normalization going forward? Are you changing your credit risk appetite in light of deterioration macro condition in Brazil?

A - Angel Santodomingo Martell

Well Marcelo I think I answered basically the question and terms of macro appetite in the different reactions to the situation, this is absolutely (inaudible) I mean we have -- the risk department with the business department and with the rest of departments around those two, have continuous and continuous means weekly meetings, in which they elaborate opening and closing the pipelines, fine tuning, in this segment and the other now here is performing let's do this test, let's go into untested waters, let's come back because this didn't work, this worked pretty well. We have, for example, in the auto business we have increased share in different clients that we didn't use to be there. I mean, you have this is absolutely business as usual. Now having said that, again, I think that the rest of the quality the cost of credit question, I already answered.

A - Gustavo Sechin {BIO 19841299 <GO>}

Thank you, Angel. So the next question comes from Thiago Batista from UBS. Santander Brasil posted a solid expansion of the credit card business. Can you comment about the bank's strategy in the cards -- in the credit card segment? Thank you, Thiago.

A - Angel Santodomingo Martell

Yes, you are. Right. I mean we have been selling and I think I also mentioned this in the last quarter, we have been selling over 600 credit cards per month. Well, I think that the strategy here is first make the product usable and that has to do with all the tools that you have around in terms of payments. The secondly is positioning the bank not only in credit cards, but in payments. The third one is offering different products to the different clients, thus segmenting the product in function of the client, if not the other way around.

Okay, so adapting the product to the client, I would say and finally, having that trial and error capacity that I mentioned before. No, I mean we have been increasing 70%-80% of the credit cards that in some months are sold, are sold to existing clients that they want another card for our relative or for somebody close to them. So we all know the risks -- we know the risk profile of those clients. And if not, we have a an established trial-and-error process by which you advance hand-in-hand with the client in terms of the limits and the amount of risk that you want to bear with that client. So, I think it's a little bit of an adding of position in the bank in the payments as last acquired in his last credit card and all that kind of big segment with a client perspective more than with a bank's perspective and the channels that I mentioned before have a lot to say and to do here, our position credit cards for example, with American Airlines with AmEx

A - Gustavo Sechin {BIO 19841299 <GO>}

The next question comes from Jorg Friedemann from Citi Bank. Can you please elaborate a bit further on what record negative on other operating income or expenses of BRL2.80 million? I understand other operating income come down, but it seems other operating expenses also accelerated significantly and we lack visibility about it. Thank you.

A - Angel Santodomingo Martell

Yes. Absolutely, yes. As you know, but first, that line has its proper volatility quarter-on-quarter and we kind of do much more there, but try to explain it to all of you. And let me give you some examples of that line so that you understand why it has some volatility. For example, let me try to remember here different things. In second Q if I remember, well, we had an insurance and a positive, I wouldn't call it extraordinary, a positive result on an insurance from a -- point regarding labor security that in the comparison with this quarter affects negatively.

For example, we update with the (inaudible) the entire fiscal situation in offshore like Luxembourg, for example. We did receive part -- an input in terms of, I don't know how to say that, precatorios, which are kind of public rights that you have -- you may receive and we receive some of them in the past quarter. We have another -- thing. I mean to give you a little bit of light in this line. We have the difference in between the average ForEx exchange and the closing of the month or the quarter foreign exchange. You have an input there that in this case was negative. For example, we did acquire miles for our programs and that was in the third quarter. So, I mean, I can put I don't know -- I don't remember more, but I'm sure that if we do at least, we have a lot of them that goes up and down positive, negative and this is the reason. So at the end of the you have there, as you said those 2.8 billion this quarter that are affecting more negatively than other quarter.

A - Gustavo Sechin {BIO 19841299 <GO>}

Thank you, Angel. Our next question comes from Yuri Fernandes from JP Morgan. You continue to have a good growth in number of clients. But demand deposits are decreasing on both sequential and year-over-year basis. Can you provide more details on it? How do you see funding in 2022, given higher reference rates?

A - Angel Santodomingo Martell

As I said, funding I see has a very important point in 2022. I mean, I think not only because of the NII but also because being a universal bank, we have to diversify that type of funding. I think, we are leaving a little bit of a hangover of those strong liquidity programs that we saw in the past, and 2021 has been a year in which that source of liquidity has not been as strong as it was remember 2020. I mean 2020 we had quarters in which we were growing 50%, 30%, 40%, 25% in terms of client funding. I'm speaking of deposit funding. So it's a little bit of a normal situation in which you live, some kind of hovering -- hang over in that sense. Having said that, it is a focus and we will try to focus and continue to focus in the next quarters and years specifically 2022 as we understand it is a perfectly mentioned crucial for the funding and for the full cost of funding.

A - Gustavo Sechin {BIO 19841299 <GO>}

Thank you, Angel. The next questions come from Pedro Leduc from Itau BBA. Coverage ratio and versus NPLs. Where are you seeing most NPL pressures in terms of broadening geography? Is there any outlook for 2022 already given the current macroeconomic scenario should you keep a historical 200% coverage ratio by year end 2022 or remain above it?

A - Angel Santodomingo Martell

In terms of quality of risk, I'm not going to elaborate much more because I think I did call it already. I'm going to try to answer you the two points that I think I didn't cover, coverage ratio. I mean let me remember to you for us coverage ratio is the outcome. So how we understand the business is that we have our not only the regulatory needs, but we have our risk department that sets the needs to whatever it is to provision, to not provision, to over provision or to leave it or to renegotiate or whatever of each of the clients that this bank has. And with that policy, we end up with a coverage ratio. So it's, we don't have an objective. Obviously it comes as a consequence of our provision, so the fact that we have 248 or 50% coverage ratio is something that comes out from that process. It is also true that if you see the historic series, we used to be for a long period of time at a hundred plus then we went over 200 even to 300 and then back to 250 and this is something that will continue to answer to the process I mentioned before know. In terms of geography segments et cetera. Obviously, each of the segments have different cost of risk the trends in each of the different segments are you already mentioned before but in terms of geography, I haven't seen differences from what it is usual here in Brazil.

A - Gustavo Sechin {BIO 19841299 <GO>}

We have another question from Thiago from Goldman Sachs. What were the main drivers for the decrease in the effective tax rate in the third Q 2021? What should be the recurring level going forward? Thank you, Thiago.

A - Angel Santodomingo Martell

Yes. Thiago good question. I mean the main reason was that we paid interest on capital as we said -- we say here in Brazil in the third Q. We announced it in July, the board approved it in July and that -- and the full payment 3.4 billion was interest on capital, so that impacts significantly the tax rate. I think the tax rate in this quarter was close to 30%, which put the average in the year around 35%. The answer here in terms of tax rate is the same I've given to you. I mean, we should be in the 30 plus, and that depends on this interest on capital and different initiatives that knowing that we have a second semester in which the tax rate for banks as you all know has increased by five percentage points or punctually during these six months.

Operator

The Q&A session via telephone is open now. (Operator Instructions) The first question comes from Jorge Kuri with Morgan Stanley.

Q - Jorge Kuri {BIO 3937764 <GO>}

Hi, good morning everyone. I think most of the questions I wanted to ask have been answered. Thanks. Angel, for the detailed responses to all the questions. Let me just ask you something more longer-term and bigger picture. I'm looking at the consensus numbers from the sale side on your growth in net income and pre-tax profits for the next two years 2022 and 2023. I'm seeing pre-tax profit, two-year CAGR growth of 5% and net income growth two year CAGR 7%. I want to get your reaction on what do you think about these numbers I think they're too low 5% two year CAGR on pre-tax profits that's basically growing with inflation and I'm assuming you can do much more than that, similar to net income. So one way to get your reaction on what do you think about these numbers? What do you think on numbers that you would feel more comfortable with over the next two years? And what do you think the sell-side community is under appreciating getting wrong overall on the story that's driving this. What I think are very low numbers. Thank you.

A - Angel Santodomingo Martell

Thank you, Jorge. Well, I mean you have seen the evolution of the consensus and how we have been performing or delivering and what has been kind of the performance of that consensus know. As you know, we don't give guidance or forward-looking but what I can say to you is that I mean, we have been outperforming a strong leader in the last five, six years continuously against the consensus I think and this is what I think was a research done by you by your house, by Morgan Stanley in which the output all the banks and the ones that had given some kind of - surprises some time. And I think Santander Brasil was the only one that did not give any single narrative surprise.

So meaning that we went over consensus during a long period of time. I think was three, four, five years. So I mean, we continue -- as I said in my speech, we continue to be focused. We continue to put return on equity and growth and clients. I think the bank is uniquely positioned in terms of acquiring clients, uniquely positioned in terms of capacity of selling through the different channels with clarity on what has to do each of the channels. A lot of capacity is still as an industry but the specifically is around on the cost side. Also we have the lowest efficiency ratio. We will have to monitor obviously quality. And that's an obvious one. That's it. So I think that the fact that the bank has been performing, should be a part of your answer. And what are we all losing? I think that the capacity of these bank to navigate throughout whatever it comes. If you see the performance, I just put the return on equity. But I mean, if you see the performance since 2015, we -- this country went through the worst crisis in 15, 16 and the bank perform and then it went through a pandemic and the bank perform.

And then we are now heading towards lower GDP growth and I think we will perform. And that's I think and why? Because you have all those variables I said to you all that capacity of positioning, you have a bank with a lot of hunger, a lot of intensity in terms of delivering and you can I mean I said to you 94% of the employees are proud to work in Santander Brazil. This is I don't want to say unique, but this is something really to be very proud of and I'm very proud of working in a bank with 94% of the people that really are proud not that not only they want to work here they are proud of working here. And this is culture, this is diversity, this is speaking up, this is meritocracy, I mean, you have some of the things that I understand sell-side analysts is difficult to quantify, but it is a reality that they exist and this is why we underline them and we put the pack. And now we speak of ESG and the bank has been 20 years in ESG, this is another -- this is the kind of things that I would consider.

Operator

The next question comes from Mr.Carlos Gomez from HSBC.

Q - Carlos Gomez {BIO 15024854 <GO>}

Hello. Good morning Angel and thank you for taking the questions. I have two brief ones. One is if you can comment on your current relationship with Getnet, it's been a few months now since the company is separate, you have reached this agreement about how to make payments to each other. Can you give us an idea about the revenues and expenses related to Getnet? And while at this agreement, now that you have experience needs to be adjusted or is working well, so far? And the second very brief question in the other expenses, it seems that one of that is related to a particular labor claim. If you can tell us how much that was in the quarter, total of BRL1.8 billion, we want to know how much that is legal expenses? Thank you.

A - Angel Santodomingo Martell

Okay. Thank you, Carlos. On the Getnet relationship well, it is true that Getnet officially and accounting wise et cetera was already a spin-off as of the end of March. So we have been functioning in that also. It is not quoted et cetera but we have been working in that scheme already for more than six months. And the reality is that what we promised to you I mean things haven't changed. What does that mean? It means that the relationship in between the two entities continues to be and this is our main focus, continues to be as it was, which is trying that both sides, the bank and Getnet obtain the maximum out of it.

So this is what is happening. So management from Getnet continues to participate. With all the obviously legal framework applied, but continues to work, continues to participate in the same committees in the same working groups. The board of Getnet as you know is going to have two members, two senior members from Santander Brasil to maintain the same kind. So the experience to your question. How is it going on? It's going as expected and we expect Getnet to continue to grow strongly as it has happened in the past, markets are already in 16% et cetera. So they are presenting the numbers -- they have presented the numbers already know and they will be doing the call in I don't know in some hours and they will give you the details but I mean they have presented more than BRL90 million or it is BRL90 million result, the growth will continue to be there and I hope that you are able to understand it. The second part of the question I didn't get it. You want to answer it, Gustavo you try.

A - Gustavo Sechin {BIO 19841299 <GO>}

If I understand correctly Carlos, your question is regarding the labor contingencies. If I understood correctly, we had some input in terms of labor contingencies in this quarter. It's around BRL106 million and it's considering in other expenses.

Operator

Thank you. The Q&A session is over. And I hand it over to Mr.Gustavo Sechin for his closing remarks.

A - Gustavo Sechin {BIO 19841299 <GO>}

So I would like to thank you very much for joining us today and your interests. Also again, we are fully available here for any further question. Thank you very much. Have a nice day, stay safe. Bye, bye.

Operator

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