

## Q1 2015 Earnings Call

### Company Participants

- Angel Santodomingo Martell, Executive Vice President-Chief Financial Officer
- Luiz Felipe Taunay Ferreira, Head-Investor Relations

### MANAGEMENT DISCUSSION SECTION

#### Operator

Good morning and thank you for waiting. Welcome to the Conference Call to Discuss Banco Santander Brasil S.A.'s Results for the First Quarter of 2015. Present here are Mr. Angel Santodomingo, Executive Vice President and Chief Financial Officer; and Mr. Luiz Felipe Taunay, Head of Investor Relations.

Live webcast of this call is available at Banco Santander's Investor Relations site, [www.santander.com.br/ri](http://www.santander.com.br/ri) where the presentation is available for download. All the participants will be on listen-only mode during the presentation, after which we will begin the question-and-answer session and further instructions will be provided. We would like to inform that questions received via webcast will have answering priority.

Before proceeding, we wish to clarify that forward-looking statements may be made during the conference call relating to the business outlook of Banco Santander, operating and financial projections and targets based on the beliefs and assumptions of the executive board, as well as on information currently available. Such forward-looking statements are not a guarantee of performance. They involve risks, uncertainties and assumptions as they refer to future events and hence depend on circumstances that may or may not occur.

Investors must be aware that general economic condition, industry conditions and other operational factors may affect the future performance of Banco Santander and may cause actual results to substantially differ from those in the forward-looking statements.

I will now pass the word to Mr. Angel Santodomingo, Executive Vice President and CFO. Mr. Santodomingo, you may proceed.

#### Angel Santodomingo Martell

(02:03) few highlights results and I would like to share with you some of our final remarks.

In page four, we will start with the macro side. As you know we present the consensus expected in the dynamics will remain (02:26) let me share with you some thoughts. As we see that the Brazilian economy is going through an adjustment process in this

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environment, the amount of measures implemented or announced by the government is considerable and in the right direction. There has been a pronounced adjustment in relative prices in the Brazilian economy. Not only intervening prices have been altered, but also exchange rate differentiation has taken place. Those changes have an impact on the different variables, productivity in between them and of course, in current year inflation that, as you may see, is expected to close even above 8%.

The fiscal measures that, as I mentioned, are even implemented or announced, indicate a clear change in the course of macroeconomic policies. To that extent, we believe that bulk of the measures will be delivered and will structurally impact in a positive way the economy. The key issue is not whether the quantitative targets will be met, but specifically, that change of direction.

As a result of those measures and uncertainties and perceived risks in the Brazilian economy have been reduced during the last weeks in a significant way. It is true that there are extreme uncertainties and we believe the country is in the right track and we maintain our positive view with the country. Since readjustments are sizeable, the economy will be impacted. In 2015, as you also may (04:18) to a contraction of GDP of even further than a negative 1% probably setting the grounds for a better 2016 and even more 2017 and afterwards.

Consensus, these are probably that Central Bank would hike interest rates up to 13.5%. We have tomorrow the (04:40) meeting and will start to ease monetary policy by the end of this year or beginning of next year once the impact of the activities of the current adjustment process is better understood.

And last but not least, it is expected that the real would converge to somewhere around R\$3.2 against \$1, a level that overtime should reduce the current account deficits to a more sustainable level. All-in-all, as you may see, the trend of the environment is complex and the trend in the analysis that have been made are in the right direction.

Okay. Leaving the micro side and we move to the highlights slide on page six. I would like to share before going to the detail in the three main areas, balance sheet, returns and quality, my views. The quarter results, as you're going to see in the next slides, positive dynamics of (05:44) which result from the implementation of the strategy that we have been sharing with you now for some time.

The four main highlights I would like to underline are: First, the expanded loan portfolio increased by 5% in the quarter, boosted, and this is important, by the real depreciation and the consolidation of Bonsucesso, our non-like-for-like issue since February 2015. Excluding the impact of those two factors, or speaking in a like-for-like way, the quarterly growth was 1.8% for the total portfolio and 1.6% for the loan portfolio. Funding from clients moved up by 4%.

Second, the Bank remains in a comfortable position in terms of capital and liquidity reflected in the strength of its balance sheet, at the same time that we continue to

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increase our profitability. The BIS ratio is still at 16% with the Tier 1 of 14.5. And the loan-to-deposit ratio is stable around 100%.

Third, net profit totaled R\$1.6 billion - R\$1.633 billion exactly in the first quarter, with a quarterly growth of 7%. This is explained by a better evolution of revenues in the quarter which grew asset values (07:16) under pressure which is total loan loss provisions and cost control. So basically, we have continued with the same pattern in the lower part of the P&L while starting to see positive signs on the upper part of it.

Finally, it is worth emphasizing that quality remains controlled. Delinquency of 90 days continue to improve, falling by 28 basis points in the quarter, while the coverage ratio reached 181%, more or less stable compared to the previous quarter, but the highest level for a long time, several years, in fact.

The next slide on page four (sic) [eight] (08:00), you may see the evolution of the net profit which totaled, as I mentioned, R\$1.633 billion which is an increase of 7% in the quarter and 14% in the year.

The main lines of the results may be seen on the next page in slide nine. Regarding the revenues, there was an upturn on the net interest income which increased 2% both in the quarter and in 12 months. This is the first quarterly increase after a long period. Commissions fell by 5% in the quarter, but we have to remember here that it's mainly due to insurance seasonality effect on 4Q, and grew by 7% in 12 months.

The allowance for loan losses remained flat in the quarter, totaling R\$2.1 billion with a reduction of 10% over the first quarter of 2014, reflecting our low risk balance products growth. This improvement was also reflected in our cost of credit, which fell by 17 basis points in the quarter and 76 basis points in 12 months. And obviously, it is also reflected, as you will see now, in the evolution of the credit spread.

General expenses remained under control with annual growth of 3%, well below inflation as we have been saying in the last almost two years, three years, reflecting our efforts to improve productivity and efficiency. In the quarter, general expenses moved down by 8% mainly due to seasonal impacts. As a result of all of what I mentioned, net profit climbed by 3% in three months.

Okay. Now we will move into a more detailed, an in-depth view of each of these lines. In the next slide, we may see the net interest income evolution. Net interest income totaled R\$7.1 billion in the first quarter, growing 2% over the previous quarter. The credit related net interest income pattern was driven by the increase in the average loan portfolio which more than offset the spread compression that resulted from the change of mix. We have a product spread growth that is still being more than offset by the change of mix. So all-in-all, what is happening is that the price positive evolution is being offset by the change of mix. But we have also some help coming from the volume side of the portfolio.

In (11:04) comparison, net interest income also increased 2%. The decrease in credit-related NII was more than offset by the increase in the positive-related NII and by the

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increase also of the line Others due to higher gains in market activities. In any case, in a pattern that is similar to what we could we could call recurrent level.

Again, the decrease in the credit-related NII is fully explained by the change in mix in the overall banking book spread. The change in mix either from a product or certain perspective have been made tangible with the following examples; balances of riskier products for individuals like credit cards or overdraft or personal credit (11:54) we call here in Brazil decreased year-on-year 6% or R\$2.5 billion, while for example, mortgages increased R\$6 billion, so more than two times, almost three times what I'm speaking year-on-year or an explicit 36%. Large corporates, for example, as a second example, loan portfolio growth clearly outperform by far the SME loan portfolio growth which as you can imagine have different spreads.

In next page, the loan portfolio, expanded to a total of R\$324.7 billion. The recent forex real against the dollar exchange rate depreciation had a major impact on the portfolio growth. Excluding the impact of the forex depreciation and incorporation of R\$1.7 billion loan portfolio coming from Bonsucesso, the yearly and quarterly growth of the expanded loan portfolio amounted to 13% and 1.8% respectively.

The large corporate segment continues to be one of the main growth engines, as you can see, growing from 25% year-over-year and 5% Q-on-Q after filtering out again the impact of the exchange rate devaluation, depreciation. In the individual segment, you may see there 6% year-on-year growth and a 2% Q-on-Q. Both metrics have been impacted by incorporation of Bonsucesso portfolio at the start of February. Like-for-like growth was in 3.5% and 0.3% respectively.

Consumer finance portfolio decreased 2% in the quarter and 3% in 12 months. We are comfortable with the profitability and performance of this segment especially taking into account the overall car market dynamics that as you know are dropping depending we are speaking of new cars or used cars. But new cars are dropping by almost 15%, while used cars are slightly positive.

The SME portfolio finally is stable both in three months and 12 months probably reflecting the macroeconomic environment. We continue to invest in our franchise in the second - in this regard. Next 19 of May, we will announce the implementation of a new SME platform that we should be mentioning and sharing with you in the last quarters.

Moving to funding in the next slide, you may see the evolution that reflects our client-focused and linkage-focused strategy with them. Funding from clients reached a total of R\$261 billion coming climbing almost R\$7 billion in 12 months and R\$9 billion in the quarter. Total client funds, and this means if we include off balance sheet assets under management, going to R\$469 billion with strong growth of 20% or R\$79 billion in 12 months and just 4% in the quarter. Assets under management as you may see there R\$167 billion, with a 12% increase in 12 months and 2% in the quarter.

Coming back to the P&L, in terms of fees and commissions, in the next page, you can see that the total fee income totaled R\$2.8 billion in the first quarter 2015, 7% higher

compared to first quarter 2014 and 5% lower in three months against 4Q last year.

The table we used comparison because the product evolution was negatively impacted by the recognition of the renewal of insurance policies in the last quarter of 2014 of last year. I mentioned this in my introductory words. Excluding this effect, fees and commissions would be stable in the quarter.

Also in the quarter, let me highlight securities, brokerage and placement, which we've had a good growth of 35%, and in 12 months, the growth that was boosted from the insurance and lending operation fees. I would like to also underline these insurance commissions, which increased 10% in 12 months and the non like-for-like 13% growth in the quarter, which is really 21% increase if we claim for these non-like-for-like or one-off issues. But it's not really a one-off issue. It's that when we account for that income every portfolio.

General expenses, next slide. If we exclude depreciation and amortization, the decrease is 9% in the quarter and flat in 12 months. As I mentioned, way below inflation levels, which, as we know, our main message during the last year.

The seasonality of first quarter in our controlled policies explain this performance. Including depreciation and amortization, total expenses moved down 8% in three months and increased 3% in the year, again, well below inflation. As mentioned, the good performance is a result of our productivity and efficiency programs, which will continue to yield results throughout this year as also mentioned and announced in the last quarter.

On page 15 (sic) [16] (18:11), we are going to quality, into the delinquency indicators, which continue to reflect the quality improvement of our loan portfolio. The NPL ratio over 90 days fell by 79 basis points in 12 months with an improvement in both the individual segment, 78 basis points and the corporate segment, 57 basis points. In the quarter, delinquency fell by 28%, also with the improvement in both segments.

The leading (18:41) indicator, the 15-90 days NPL ratio increased by 23 basis points, as you can see here from 4.1% to 4.3% in the quarter and it has a total of around 100 basis points in 12 months. Bear in mind that first quarter tends to have some seasonality also here.

Last year, the Q-on-Q increase was 56 basis points. So this year, the 23 basis points is less than a half of the increase we had in the first Q last year. The coverage ratio, as you can see there, is 181% I was mentioning before, which remain in a very comfortable range, in a very comfortable level.

In terms of allowance for loan losses in the next page, as can be seen, they came at R\$2.1 billion in the quarter, presenting a decrease of 10% over the previous year and with almost 1% reduction in the quarter, due to the increase in both provisions and recovery of written-off loans.

The cost of credit reflects the improvement, as well as the previously-mentioned change of mix representing a decline of 76 basis points in 12 months and 17 basis points in the

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quarter. With this evolution, the spread net of risk is stable in the quarter. As you remember, the asset spread was - this also came down by almost 20 basis points also.

Looking forward, even though the overall economic environment remains challenging and there are some sectors that are under distress, we continue to expect that the overall 2015 cost of credit will not meaningfully delineate (20:38) from 2014 cost of credit levels. This improvement is reflecting the past investments Santander Brasil has made in commercial and risk acquisition models which have improved our level of client knowledge, aligning risk profile with building (20:55) capacity and kind of product.

Moving to performance ratios in the next page, you can see that efficiency ratio stood at almost 50%, 49.8%, and with improvement in the quarter with a peaking of almost 400 basis points of improvement in the quarter.

The recurrence ratio reached 68.9% in the quarter, also improving 187 basis points in this quarter. And finally, return on equity reached 12.8% in this first quarter of 2015, with an expressive increase of 77 basis points in the quarter and 165 basis points in 12 months. So we have an expressive improvement in profitability to our shareholders.

Finally, in the next page, liquidity and capital ratios, we maintained an adequate position in terms of liquidity with the single funding sources and adequate funding structure. The loan to deposit ratio stood at 99% in March 2015. On the right-hand side, the BIS ratio stood at 16% mostly comprised of Tier 1, at very comfortable levels. There are few factors that explain the quarterly change of 150 basis points.

Approx. 40 basis points is related to risk weighted assets growth and 30 basis points related to the market and operational risk weighted assets growth. The later, obviously, was impacted by the introduction of a broader perimeter by the Central Bank, by the Brazilian Central Bank who calculates regulatory capital in Brazil.

A negative impact of approximately 60 basis points is due to an increase in DTAs in the quarter. As you know, also from an economic perspective, Santander Brasil tends to work with operating small (23:04) open currency positions, which are reflected in the fact that net profit does not look good substantially with forex movement. From a fiscal perspective, the various dollar-denominated assets and liabilities have asymmetrical treatment, which become relevant in previous relevant (23:20) FX movements like we had in first Q 2015. (23:27) the majority of that has already reverted as we speak today.

If by the end of the second Q 2015, the forex levels maintain the levels as of the close of business, for example, yesterday (23:39) more than 50% of that impact is unwinding.

We have another negative impact of 60 basis points due to the phase-in of Basel III rules that you probably know all of you. With the expected goodwill amortization of R\$2.9 billion up to the end of this year, 30 basis points of the impact in the quarter should be unwinding until the end of this year. So as you can see, with the several (24:07) impacts that as we speak for during the year would be unwinding.

And finally, the real depreciation that I mentioned, the capital ratio was benefited in approx. 30 basis points by the fact that we issued in first Q 2014, as you know, \$2.5 billion of denominated Basel III compliant securities.

As a conclusion in the last slide, let me share with you the main messages that we think explain are the underlined messages that the numbers show. First, the various drivers of our results in the quarter saw better dynamics than in the past.

Our continuing effort to improve our franchise in commercial retail banking in Brazil starts slowly to bear fruit. Second, revenues are already showing a positive trend with the net interest income upturn. Third, real expenses remained under control with annual growth way below inflation. The productivity and efficiency plans are generating the expected results that we have been continuously announcing in the last quarter and years. But once again, the most important point is to continue concentrating on transforming the bank in a client-focused organization, which is something that is being done and will continue to be done within the next quarters and years.

In this regard, the most recent event in the development of our commercial platform has been the introduction of our new commercial model, as you know called CERTO, which aims at simplifying processes, improving service level and devoting more time of our branch network teams to commercial activities with clients for organizing the commercial activities in line.

In the second quarter, new improvements will be delivered that you will be informed in due time. And this process will obviously continue in following quarters and years with our gradual impact in P&L.

Quality remains under control. That will be my final words. Also the environment has the already commented performance. We remain comfortable, thanks to our coverage ratio levels, the 181% I mentioned as well as the attentive management priorities to continue delivering results while we improve the performance of our upper part of the P&L.

Thank you. And we are now ready to answer any questions you may have.

## Q&A

### A - Luiz Felipe Taunay Ferreira {BIO 16259322 <GO>}

We will start the Q&A session. I'll put together the questions that are related to the same subject. And so, some of the people that post questions will see their questions answered in different chapters (27:30). So starting with loan portfolio, a question from Saúl Martínez, how quickly can you begin to grow in payroll via the Bonsucesso partnership and the adoption of the SME platform Advance?

### A - Angel Santodomingo Martell

Okay. Saúl, Bonsucesso – the first thing I will say about Bonsucesso is that also it is starting now as part of Santander Group in February, as you know, we hold 60% of that JV, is that this is a key player with key experience. So what the process is basically now concentrated? They are concentrating in all the activities on the commercial side with this expressive growth. And on the operational side, we are integrating, as you can imagine all the portfolios there. In that regard, we will still have translation of portfolios in the second Q that are still under the Santander Brasil umbrella and we agreed to have under the Bonsucesso umbrella.

We have had good news lately of potential laws that may improve even further the capacity of Bonsucesso of aligning and offering the products that they share, so one point. And the second point is that the strategy of Bonsucesso is instead of trying to operate through every single correspondent that you may find in the country to concentrate activities in higher but more efficient, more profitable and more sizeable correspondence and that is happening also as we speak.

So our perspectives and estimations of Bonsucesso are positive. We are very happy with the management team. I am comfortable with them. As I said they are quite experienced people with a long experience, speaking of between 15 years to almost 30 years of experience in this business or related businesses, not only the top management, but also the commercial guys that are in charge of the different networks.

In terms of the SME, well, I would say that the platform Advance that is employed in Bonsucesso's name, but it is the same concept. I would say that, as you noted, the aim of this platform was to offer a full range of products and services. And the patience and maintaining the patience which is sometimes not an easy one so that we could go out to the market when we felt we were comfortable and with the right offer. And we feel we are starting to be there, but please bear in mind that implementation of these processes is not a weekend change.

We implement them. We roll them out. The network has to learn about that. They have to learn how to sell that new set of products and services. Some of them are not new, obviously. Some of them are. But the way of approaching the client with that whole set of range of products and services is something that has to be rolled out.

So do not expect second Q SMEs or first Q SME data boosting up, because that is not the way. This is, as I always mentioned, this business is made of transatlantic, and that transatlantic, you have to move it, and moving it takes time and patience. Once you have moved it and you have put it in the right path, the acceleration may be the right one, but we are still moving the transatlantic on the SME side.

### **A - Luiz Felipe Taunay Ferreira {BIO 16259322 <GO>}**

The second set of questions regards asset quality. The first one comes from Saúl Martínez from JPMorgan. And it is in your audits footnotes, you mentioned that you paid R\$1 billion of credit assignments that had previously been classified as H-category (32:16) loan. What impact this had on your financials, NPLs and more importantly, did it have an earnings impact since they had already been fully provisioned for?



So it seems to be the more detailed question. I will take this question. So the bank sold about R\$1 billion as it is stated in the footnotes. Out of this, R\$440 million was classified in the over 90-day and R\$50 million was classified in the 15-90 days. So the impact on the 15-90 days, the early quoted (32:58) figure is relatively small, very minimum.

And in the over 90 days, it's about - the setup having a drop of 28 basis points in the quarter. We would have had a drop of 13 basis points i.e. this is an impact of 15 basis points in the NPL evolution. And in terms of the impact in results, it is an impact of R\$158 million, one has to bear in mind that a bank has various strategies in terms of recovery strategies. So (33:35) we continue to do the recovery profile for, but in some circumstance, the bank might decide that it's more economical to sell those portfolios.

Regarding the second question, it comes from Philip Finch from UBS. Could you comment on why the 15-90 days daily NPL went up by 20 basis points in the quarter, both on non-corporate and from individual?

### **A - Angel Santodomingo Martell**

Okay, Philip. Thank you. So well, I think I mentioned in my words that it is true that the 15-90 days NPL ratio goes up a little bit more than 20 basis points. But I would underline a little bit of a seasonal effect of the first Q. As I mentioned last year, this same indicator went up more than double of that amount. If I remember well, it went up 56 basis points. So we are based on height (34:58) of what happened 12 months ago.

But let me address a little bit, given the comments on the quality side, et cetera, what is our - what is Santander position in terms of what we are seeing? Obviously, we are very attentive. The good numbers we are showing to you, which as I mentioned, that are a clear reflection of what we had been doing in the last years, I would say, in terms of implementation of these models of (35:27) the risky part of some portfolios. All that things that we ran some time ago in that, let me say, yeah, nobody was asking for that, because the environment was not what we have today in the country.

Obviously, (35:45). Does that mean that we are in safe harbor? No, no. It means that obviously, as I mentioned, we are expressly attentive. We are following all the things that are happening in the country. We follow the metrics both leading and non-leading indicators. And that obviously we will continue in the same direction. But I would like to underline and to stress that when an effort is made during a long time, well you have some positive impacts. We are not in a position of disbelieving that the situation here is not having an impact or is not going to have an economy deterioration in the general sector. But that as I mentioned in my words, for the time being, we maintain our view about cost of risk, et cetera.

### **A - Luiz Felipe Taunay Ferreira {BIO 16259322 <GO>}**

Before we move to the next topic, someone pointed out that I forgot to mention the R\$158 million is (36:58) of the gross amount and not the net amount. So regarding effective tax rate, the next topic is effective tax rate. Philip Finch from UBS asks, we have

seen some volatility on this front in recent quarters. Going forward, what do you think is a normalized level of tax rate?

### A - Angel Santodomingo Martell

Well, Philip, thank you. Remember that the volatility of the last Q has to do with what is called here (37:31) dividends paid on capital. That have a fiscal treatment that provoke this volatility. I would say that if we exclude that, and more or less maintain the same levels of previous quarters. So I would say going forward, more the same. Anyway, I don't expect significant changes of tax and rates on our business as usual way of analyzing it and obviously adjusting for these type of dividend payments, et cetera.

### A - Luiz Felipe Taunay Ferreira {BIO 16259322 <GO>}

The next topic is BIS. The question was posed by David (38:19) from JPMorgan. Can you please explain the drop of 160 basis points quarter-on-quarter and the CET1 under Basel III?

### A - Angel Santodomingo Martell

Okay. Thank you, David. I think I already explained in my - also in my speech the impacts in capital. At the end of the day, what you have is an increase due to credit and to operational. Credit only is because of the loan growth. And operational due to this, what I mentioned before, the introduction of a borrower perimeter has to do with the total perimeter that is included under the operational risk following the Brazilian Central Bank measures.

That's one part of the story. The other part has to do, I mentioned, with DTAs and with the impact of what it is, the forex exchange generates a fiscal loss which generates those DTAs that if it is reverted as we are seeing now, you revert that impact. And I think I mentioned that more than 50% is already unwinded as we speak. It will all really depend - obviously depend on the level of forex. And then you have phase-in. Remember that we go from 20% to 40%. I mean, you go into different - into that phased-in process, the market normally concentrates on the fully loaded number that we speak of the phased-in, you go, every single year you have these impacts that also affect that ratio.

### A - Luiz Felipe Taunay Ferreira {BIO 16259322 <GO>}

We just received some more new questions. Some of them regarding topics that we have already addressed. So starting from Marcelo Telles from Credit Suisse. Could you comment on your expansion strategy in Brazil? Would you grow organically or would you consider potential acquisitions? Two, do you see potential for the duration in the large corporate book? What is Santander exposures to Petrobras supply chain?

### A - Angel Santodomingo Martell

Okay. Expansion strategy in Brazil. Well, I would say that we are 100% focused on organic growth. These has been the way of functioning, the way of deciding strategies, the way of acting. The organization is not at all distracted from what is business as usual. Having said that, I already mentioned in previous quarters, two things that I would like to underline

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again. First, there are businesses in which we share a below market presence and in which also the strategy is to continue to grow organically, obviously, we'll analyze any potential activity.

And secondly, and most important, which is in May 1, that includes the previous one I mentioned, is that we think as the figures are resulting, of analyzing anything that maybe or at least proposed to us to try to understand if that would add value to - or create value to our shareholders. The question is, is that what we are looking for? Answer is no. But having a 99.9% organization focused on organic and business as usual growth and then strategies, obviously you have to devote time because of that (42:32) I was mentioning.

Do you see potential deterioration of the Petrobras, et cetera issue? Well, I mentioned, I think I mentioned our views in terms of quality of the economy, et cetera. So I'm not going to repeat those words, we are attentive and obviously we are totally conscious that the country also is in the path that I mentioned in my words towards 2016 and 2017 is a year that is going to be a difficult year.

With regards to Petrobras, (43:09) issues. I think we already disclosed the numbers in terms of exposure. We already said that in terms of oil and gas, it is less than 4% of our book. That's the total exposure to the total sector, okay? And we select the premium suppliers of Petrobras; and in terms of exposure to them, we are speaking of less than 1%. So I think that we are in comfortable and reasonable levels to both the sector and specifically that set of group, that group that was set by publicly and especially Petrobras.

### **A - Luiz Felipe Taunay Ferreira {BIO 16259322 <GO>}**

The next question comes from Felipe Salomão of Morgan Stanley. You mentioned that the loan book ex the tax depreciation and the effects of the JV with Bonsucesso would have increased 1.8% quarter-on-quarter. If we do the same adjustment for the NII, how much it would have increased on a quarterly basis? If we just adjust the NII for the effects of the JV with Bonsucesso, how it would have increased in the quarter, vis-à-vis, the 2.2% growth reported in the quarter.

I'll take this one. Felipe, those impacts are very minimum in terms of the NII evolution for two reasons: First, you know that the factbook (44:50) basically we are talking about big corporates and the spreads of the big corporates is not that substantial. Regarding Bonsucesso, incorporation of Bonsucesso took place in the end of February. So effectively in the quarter, in terms of NII we have the impact of just one month and not the full quarter.

Going back to the asset quality question, we have three more questions regarding asset quality. The first one comes from Marcelo Cintra from Goldman Sachs. Although, the 90-day NPLs improved in the first Q, the early NPLs deteriorated in both consumer and the corporate portfolios. Furthermore, NPL creation is slightly deteriorated in the quarter (45:43) increased significantly. Considering those trends, how management sees the evolution of asset quality and cost of credit going forward?

## A - Angel Santodomingo Martell

Well Marcelo, again I think on the quality side I already said our opinion and how we see it. I mentioned in my words that probably we are thinking of our cost of risk in the region, like we speak about the region and underlying the region, because obviously it is difficult to estimate. But how we see the changes, et cetera in a region of what we have seen in the recent past and I mentioned specifically in my words on the - when we went through the presentation. So again, I'm not going to repeat myself too many times, because we are saying the same thing; we are attentive and we see how things are evolving. I think we made our homework and we will see that evolution within the next quarters.

## A - Luiz Felipe Taunay Ferreira {BIO 16259322 <GO>}

Sorry. The next two questions, they come from Carlos Daltozo from Banco do Brasil. The first one regards income from recovery of written off loans. And the question is, income from recovery of written off loans which is 30% in the first Q. Do you believe that this income can return to the previous levels in the coming quarters?

## A - Angel Santodomingo Martell

Well, it is true that the recovery from written off has been reduced. This has always or may have always a little bit of volatility within quarters, okay. So I would say that our recovery activities are quite active. I would say that we are working a lot in the last times - quarters, in the early delinquencies, in the recovery plans before and just after the client goes into NPL. I mean, all those activities are being intensified, not as we speak or this quarter or first quarter, but it is already sometime, we're speaking of quarters and years. So this, as you may imagine, are communicating (48:24) I mean, at the end of the day, if you improve on one side, you end up with less on the other. But having said that, yes, you do have some volatility and I would say that why not this may return to those levels.

## A - Luiz Felipe Taunay Ferreira {BIO 16259322 <GO>}

And the second question from Carlos Daltozo is, there is more room to improve the quality of assets in coming quarters?

## A - Angel Santodomingo Martell

I think I already delivered or mentioned Carlos my opinions on the credit side.

## A - Luiz Felipe Taunay Ferreira {BIO 16259322 <GO>}

We have no more questions that we received, so.

## Operator

Thank you. The Q&A session is over. And I wish to hand over to Mr. Angel Santodomingo for his concluding remarks.

## A - Angel Santodomingo Martell

Okay. Thank you very much again for being there on the quarterly results. I think – and the quarter has been a quarter that (49:28) with the impact of what the things that are being done by Santander Brasil. But it's still a long way in the process into the next quarters. Thank you for your presence and we are at your disposal here in Santander Brasil. Good morning.

## Operator

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

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