Y 2020 Earnings Call

Company Participants

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

Other Participants

- Jorg Friedemann
- Marcelo Telles
- Thiago Batista

Presentation

Operator

Good morning and thank you for waiting. Welcome to the conference call to discuss Banco Santander Brasil S.A. results. Present here are Mr.Angel Santodomingo, Executive Vice President, Chief Financial Officer; and Mr.Andre Parisi, Head of Investor Relations. All the participants will be in a listen-only mode during the presentation, after which 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.com.br/ri where the presentation is also available for download. We would like to inform that questions received via webcast will have answering priority. (Operator Instructions)

Before proceeding, we wish to clarify that forward-looking statements may be made during the conference call relating to the business outlook of Banco Santander Brasil, operating and financial projections, and targets based on the beliefs and assumptions of the executive board as well as information currently available. Such forward-looking statements are not a guarantee of performance. They involve risks, uncertainties and assumptions as they refer to future events, and hence, depend on circumstances that may or may not occur. Investors must be aware that general economic conditions, industry conditions and other operational factors may affect the future performance of Banco Santander Brasil and may cause actual results to substantially differ from those in the forward-looking statements.

I will now pass the word to Mr.Andre Parisi. Please, Mr.Parisi, you may proceed.

Andre Parisi {BIO 21511610 <GO>}

Good morning, everyone. It's my pleasure to welcome you to our earnings conference call. 2020 was a challenging year more than usual, and we also had important achievements, which will be presented today by our CFO, Mr.Angel Santodomingo, as well more details on our fourth quarter and full-year results.

So now I turn it over to Mr.Angel.

Angel Santodomingo Martell

(Technical Difficulty) 4Q results Santander Brasil's 4Q results. We have divided the presentation in the four areas, basically, in a strategic update, the main highlights of the results, Santander Group results and the final remarks. Starting with the first part, what I would like to do is speak a little bit, just a little bit of how we finalized 2020. As Andre said, it's not been a normal year, let me say it like that. And then we would probably speak more about forecasting and forward-looking ideas.

So in the first slide, as you can see, we made a summary of what we have been achieving during the last years, but specifically, what we have been delivering during this 4Q in 2020. It is a fact that commercial activity and transactionality has started to rebound during the second Q. But also I think it is important to notice or to underline that in 4Q there were 3 key ideas, which do leverage us thinking in 2021. First one is that production, as you will see, improved and started to get the good speed and direction. The second point is that even in that situation, the attendance, the quality of attendance NPS hit record high and I will present that further on. And the third one is that, as you will probably see credit quality is absolutely controlled with a good and nice trend.

So moving to be a little bit more concrete in next slide. We have presented in terms of NII growth and cost evolution, good numbers. NII grew 7% year-on-year. We have an efficiency ratio of 37% in 2020 in the year, closing the year in 39%. As you know, we have some seasonality in the 4Q, which are so far but we can estimate that they will be the best efficiency numbers in the country. This has been the case during the last quarters and we may say that it could happen also in this Q.

In terms of net profit, after deducting the extraordinary provisions we made in second Q, we have achieved BRL13.8 billion and that includes net of taxes BRL2.7 billion of these extraordinary provision. That lead us to almost double the market share in net profit compared to our natural markets share. Return on equity remains in good levels, extracting the extraordinary provisioning, we are in 21.5%. If we include that extraordinary, we go down to 19%.

You have in the last part of the slide achievements and recognition that we have received throughout the year. I would like to underline in between all of them those that were not known or are new. In Euromoney, we receive the award of the Best Bank in Latin America and the World for SMEs and the Best Company in Social Responsibility by CNN; and Institutional Investor, as the Most Honored Bank in Latin America.

Moving to the next slide. What I would say is that we keep on gaining market share, both on the asset and on the liability side as you may see. Collateralized loans keep on growing, 400 basis points more on a year-on-year basis, so we keep on shifting or increasing the lower risk profile of our individual loan portfolio. And in the bottom of the slide, you have different kind of examples of these collateralized loans. How they are evolving? I would say strong growth in all of them and specifically gaining a strong market service. And all this happens with, as I said in my beginning words or my introductory words, with a rigorous risk situation.

It is important to understand on the risk side, not only the total kind of quality of the portfolio, but also what is happening with recoveries. I think we have developed and we are delivering quite a positive and good recovery capacity. As you may see there, we are growing to 26% year-on-year compared to 2019, but it has also evolved in quality in terms of, for example, 70% are done in digital channels. So this leads us to the -- to what -- to the risk -- to the -- sorry, to the graph that you have on the right side, which is basically that we tend to be less volatile than our competitors. So the standard deviation of our kind of performance in cost of risk tends to be more stable, less cyclical, let me say like that. And this is a strongly part due to the recovery capacity. You will see numbers in a few moments.

And trying to -- in the next slide, trying to build what is, I would say, a simpler bank. There multiple kind of fronts in which we are working. We just put here some of them. Obviously, customer support, automating operations and processes, this has been a key kind of issue for us in the last years, not only in 2020. And in technology, obviously, improving the end-to-end lending. And all these leads to improve our cost side because we increase the number of products that are in digital channels because we increase the productivity of our stores or because we are more environmental friendly and responsibility, also saving costs. As you know, focus on unit cost is also key to understand our evolution.

And diversity in the next slide, we couldn't forget about this. We continue to improve numbers. As you can see there, we have already 25% of our employees are black, 29% of our leadership is women, et cetera. As you can see there, diversity, we have ambition plans here and you will see our evolution in next quarters and years. We have been recognized by the market as the best company to work for in the different rankings. We have a very high engagement that remains very high, very important for us to have that 92% of engagement. And our -- and the positioning of the bank can be reflected, for example, in our trainee program. I mean we had more than 70,000 trainees applications received. If we compare these with just a couple of years ago, 3 years ago, we were around 10,000 or even below that. So clearly, the attraction of the bank for also GENTE talent is happening.

Moving to the sustainability arguments. In the first slide of this item, we have been -- we have continued to be close to the society. We have impacted, we calculate around 300 -- 270,000 people with different supporting programs. Amigo de Valor, as you know, one of the main Brazilian social programs, which is focused in children and teenagers has also had outstanding results. Our initiatives last year included granting scholarships. And during the COVID, we promoted things like Semana Santander, specifically focused on CUFA which are communities in need or the distribution of almost 20 million masks or the donation of BRL100million plus.

On the second slide of sustainability, what we tried to put there is how we are leading or participating in this business. And this is from the business point-of-view. You can see their numbers in terms of Green Bonds to solar energy financing, promoting our pioneering sustainable credit lines, social responsible investments such as our Ethical fund and Santander Go fund and doing with the main private banks, I already mentioned these to you in previous results. The Plano Amazonia clearly focus on that region, in total, BRL27 billion of ESG business that we have done with the market.

So closing the first part of this kind of strategy update, let me update in a couple of slides what our -- those plans that I presented to you some time ago, in between 1 year, 1.5 year ago, how they are evolving and what is happening to them. In the first slide you have 4 of them. emDia, which is our debt renegotiation platform, already reaching 4 million customers. Santander Auto, a great success of our insurance initiative, already surpassed BRL100 million premiums in the first year. This is the first insurance company to achieve that mark, obviously, putting things in the same timing perspective. Toro, the merger with Pi that we are expecting Central Bank approval in the very short term. And Ben, our platform for vouchers that already reached around 1.4k [ph] human resources departments or almost 340,000 merchants.

And on the second slide of this (inaudible), I underline they're both seen in our consumer finance unit. To underline about Sim that continues to grow fast and strong, already a portfolio today is clearly over there, but I mean at the closing BRL700 million, it's already in profits, so already gone -- has gone through breakeven.

Production is heading towards BRL100 million per month. And then you have Santander Financiamento, the consumer finance part of our business that keeps growing, improving the micro-regionalization business, both in B2B and B2C, sorry. And we are clearly increasing activity with the market, aiming to grow our portfolio strongly almost at 50% as you may see there on a yearly basis.

And the last part, if I may go in the last part of this initial introductory words, which is growth, okay? So customer wise, which is the first slide, as you can see, we have continued to grow strongly our customer base. We have almost 28 million active clients, 6 million loyal, and 16 million digital with nice growth rates in all of them. I would underline, specifically, the loyal ones is still growing or continue to grow in double-digit 12% on a year-on-year.

The NPS, I introduced to you that we were performing nicely there, 63 basis points. We started with almost -- when we started to publish the number, we were close to 40 basis points. We -- if you remember, we spent some quarters around the 55 to 57 points and now we have improved to clearly above 60, 63 points that is almost 8 points improvement in 12 months. So we are clearly in the line of improving our capacity and our quality of attendance, which is one of our key strategic lines.

And on the digital agenda, I just wanted to -- we just wanted to underline to you these GENTE (inaudible) which is our artificial intelligence initiative to support the commercial expansion and commercial activity in our -- with our clients. As you can see, almost 40 million interactions already, 70% queries solved.

Moving to the payments industry, which as you know is kind of one of the focuses of the market. We tried to put some numbers here to kind of focus on how strongly we are growing here. So as you may see there turnover growing above 40%, probably if not the strongest -- one of the strongest in the market with a strong participation of our current account holders or of our more loyal clients, let me say like that. And we issued on the back of the peaks new payment system, we issued also the card SX, which is the merchandising or the commercial name we gave to our PIX initiative. And as you may see also quite good growth here, so we have grown since the start of the PIX, which was in November, we have sold more than 1 million cards of SX in this -- up to today. This is not up to the closing of the year. This is up to today. So it's close to 2 months, a little bit more than 2 months, okay?

And the numbers on the PIX system also on your right, you can see there that we have 15% market share. So clearly above also our, what we could call, the natural market share with a strong activity in transactionality. On the Getnet side, linked to these payments kind of universe, you may see there the main numbers, I would underline market share, we have transformed (inaudible) in a 15% market share player, strong, gaining strong market share continuously, 25% market share in e-commerce. Turnover continues to grow well above the market and the prepayment of receivables increased almost 40%, 39% in yearly basis. And not last but not least, we have the lowest cost per transaction, which is constantly evolving. You may see there the average cost 2020, BRL0.32 per transaction. In 4Q it was BRL0.27 and in December it was BRL0.23. So the evolution continued to be in the right direction of being able to have the lowest cost of transactions and being quite competitive. This compares very nicely with any number you may see in the market.

And finally to end this kind of this part of the presentation, what we could speak about our corporate or company's bank. We have been achieving different leaderships and different presences in products. I will underline that we have had more than BRL270 billion in project investments. We are top 5 in energy trading. We were named best banks for ForEx, pioneers in fully digital ForEx contracting. As you know we offered the one-pay ForEx, which is already with important transactionality. Okay, so as I said, these were the main kind of highlights that I wanted to share with you of what has been 2020, but specifically, how we end the year and how we go into 2021. And now let me go into the proper numbers, which is what we may see.

The first slide is the numbers of the group. This has already been presented. We -- I'm not going to elaborate too much there, just underline that we continue to be approx 1/3, 30% of the profits. The region is -- the region, mainly the region South America is achieving 42% of weight on the results. Details have already been given by the group.

Moving to our results, on slide, I think, it's 23. We present full details there. We closed the quarter with net income close to BRL4 billion, BRL3,958 million, a 1.4% increase on a Q-on-Q basis. And for the full year, I already mentioned, we reached BRL13.8 billion or -- and this is important, BRL15.6 billion before the extraordinary provision we made in second Q. I will call this a sound result considering the year we have just finalized. Highlighting the same -- the next -- the following figures. On the revenue front, NII remained vitally flat relative to third Q, while in the full year increased almost 7%, reflecting a good evolution of our loan portfolio and market activity results, offsetting pressures -- pressure as you may see afterwards on the spreads side.

Fees on the other hand decreased 1.2% in the year, impacted by a lower transactionality, obviously, during the pandemic. In the quarter, we already had a solid increase of 8%, more than 8%. Here, both the client base growth, the higher activity driven by better economic activity played a key role in the second half of the year.

And on the expenses side, provisions remained under control, declining even 1.2% in the quarter and increasing 4% -- 3.8% in the full year compared to 2019. And general expenses, once again, under control, growing clearly below inflation on a yearly basis and below revenue growth, fast improving our operating leverage in the P&L. Such performance comes as a result of the key pillars that I have already said with you some other times, which is constant client-based expansion, leading to a solid and sustainable growth, accurate risk models and intense effort on cost control.

Here, we have a clear agenda leading to lean growth and productivity gains. So now if we start by the different parts of the P&L, NII totaled BRL51.1 billion in last year, as I said, increasing 7% compared to previous one. Client NII increased 1.1% in the quarter and remained mutually flat in the full year. With product NII benefiting from a positive volume dynamic, which you will see in the next slide.

This effect more than compensated both mix and a spread reduction, as I already mentioned before. Working capital delivered weaker results in a yearly basis given, obviously, that we have a lower Selic. And NII from market activity presented a good performance in 2020. In the quarter, we presented a softer and more probably normalized level.

In the next slide, we can see that our loan portfolio reached BRL412 billion by the end of the fourth quarter, representing a growth of 4% Q-on-Q, quarter-on-quarter 4%, and 17% as you may see there on -- in the year. A strong performance, I would say, versus the system -- the financial system. Individuals and consumer finance accelerated the pace, as I mentioned in my introductory words, of growth in the quarter, growing 6% and 4%, respectively, reflecting this pick-up in demand, for example, for vehicles. And interesting also to note, if you can see in the slide that the SME portfolio experienced a solid quarter-on-quarter growth, as you may see there close to 5%, which is a continuation of what we saw or we started to see in first Q.

Finally, let me quickly underscore that 76%, I already said this number, but I want to repeat it, of the individuals loan book is comprised of collateralized loans. On slide 26, as we have been doing the last 3 quarters now, we update our deferred loan portfolio, it totaled BRL40.6 billion, indicating a decrease of roughly BRL9 billion, since it was created in the second quarter. Remember that we started with almost BRL50 billion.

Important to underline that the portfolio moratoria has already expired, so what I mean by this is that we are already in a have-to-pay mood. I mean everything is at current status. The 15 to 19 days NPL in this portfolio reached 5.5%. So in that even with the reduction in the liquidity support by the government in the moratorious. Our early delinquency still remains at healthy and comparable levels.

It is important to stress that more than 50% of this individuals portfolio is collateralized with more than 85% of the loans rated in between AA and C, which are the Central Bank rating is better, Central Bank ratings, risk ratings.

On the funding side, one you will notice that our funding maintained strong trends, especially in the main client on balanced lines. If we include all funding from clients, it was almost a stable in the quarter and growth or close to 30%, 29% year-on-year. All concepts presented a positive performance in the year, except the most expensive instrument, financial bills, Letras Financeiras, a trend that we have executed during several quarters already. This dynamic is in line with our strategy of lowering the funding cost in our view, the current level is adequate to support the current level of growth, obviously, is adequate to support our loan growth as you can see comparing growth rates of both the funding and the asset side.

Moving to fees, you may see how strong transactionality came back as soon as economy has started to recover with an 8% increase in Q-o-Q, clearly given an idea of how transactionality in the bank is working. Highlights, I would say, cards, which presented 14% Q-on-Q growth with an increase in transactionality in total turnover. Current account, that increased even on the back of the peak launch, affecting a larger client base. And finally, insurance, which as you know we have always some seasonality here in the 4Q, it grew close to 22%. If we clean the seasonality, it is growing at 3%.

Moving to the quality part of the presentation. As an overall, quality remained at very sound levels with a high coverage ratio, fast, reflecting a solid balance sheet. So them NPL presented a slight improvement as expected during the end year seasonality. And the 90 days NPL maintained a good and comfortable level, this 2.1% that you may see on the slide. We already mentioned, almost 300% -- 297% coverage ratio combined with the good performance of the deferred loan portfolio that I already mentioned also, sustained our view that the level of extraordinary provisions done is adequate.

On next slide you may see that loan loss provisions remain controlled in the year, reflecting a cost of credit of 2.8% in the year, 2.5% in the quarter. The 2.8%, obviously, does not consider the extraordinary provision we made in second Q. It would be 3.6% if we include it. In the full-year comparison, provisioning expenses grew 7.2% -- 7%, while at the same time loan portfolio expanded 17%. This is the reason why cost of risk, obviously, has decreased. And this also reflects the collateralized portfolio I was giving to you numbers.

Finally, it is important to highlight in last year that we presented the best level of recovery of write-off loans, which increased by 26% I mentioned. Just look at the red part in the right side of the slide, in which you may see that the BRL2.2 billion of recovery is done in

2019, have moved to BRL2.8 billion in last year, so an improvement of BRL600 million approximately or almost 1/3.

Okay, in terms of costs, 4Q posted a gain, an excellent performance. I think decreasing 2% year-on-year. The 3% quarterly increase, as I mentioned, is the traditional end of year seasonality. If we -- overall we see full 2020 cost, they grew 1%, clearly below inflation. Remember that inflation closed the year at 4.4%, so more than 300 basis points below inflation. And that is one of the reasons -- other reasons why the efficiency ratio improved.

This efficiency ratio reached 38.8% I mentioned in 4Q and 37% full year. And also we discontinued our guidance given 1.5 year ago. It is already a better efficiency level than the one we forecasted for 2022, so we are already achieving more than expected. Finalizing the presentation in the last 2, 3 year slides. Capital and liquidity, we continue to have comfortable numbers and levels. To face the scenario we have in front of us and to specifically to support growth. Our funding in terms of loan to deposit ratio is around 90%, as you may see. So it's a good improvement both on the quarter and specifically in the year. And at the end of the year, our BIS ratio reached 15 -- a little bit more than 15% and our core equity Tier 1 last year, finalized the year at 12.9%, remembering that our reference level continues to be around 12%.

And moving to indicators, the last part of the numbers that you'll show good evolution in a year-on-year comparison. Efficiency improved 180 basis points to the mentioned 37%. We estimate, as I said that it could continue to be the best ratio in the industry. Recognized ratio reached good level, recovering from what we saw last year given the commission stress we had in some quarter to a level of 86% and our profitability remains at healthy levels, even if we compare -- sorry, if we include the extraordinary provisions that I mentioned.

So concluding my part in terms of presentation, I would like to highlight that, first, our commitment continues to be, obviously, to support our customers, employees and society, as you may see throughout the presentation, while delivering good profitability to our shareholders. We rely on a -- we think we rely on a strong business model, supported by the engagement of our employees, assertive perception of business cycles and a continued efficiency effort, a solid combination that has allowed us to reach and capture market opportunities in advance.

So this is it. I would like to thank everybody for the attention and now, Andre, I think we are available to answer your questions.

Questions And Answers

Operator

(Question And Answer)

A - Andre Parisi {BIO 21511610 <GO>}

Thank you, We're going to start the Q&A with the questions we receive through the webcast. So the first one is from Eduardo Rosman, BTG Pactual. Regarding our future ROE at Santander Brasil first Investor Day at the end of '19. It was guided ROE of close to 21% for the end of '22. Due to COVID-19, the guidance was canceled, but it's still -- but you still report ROE of 20% in four quarter. You're thinking it is possible to deliver ROEs close or slightly above the 20% mark in the next three years?

And here, we have another question with the same subject from Thiago Batista, UBS. Santander Spain provide a medium-term guidance for IoT for South America of 19% to 21%, and Brazil is the main business of the region. We believe this level of profitability is feasible for the Brazilian operation?

Operator

Ladies and gentlemen, please hold.

A - Angel Santodomingo Martell

(Technical Difficulty) Sorry. Are you hearing me or not? Okay. Sorry, I think we were put on mute, and we were having -- I was elaborating on the question. But the question, I think it was heard, Andre. I'm sorry about this. I was speaking and we were on mute. Okay, so I'm going to repeat the answer I just gave without anybody hearing me. So thank you, Eduardo and Thiago. Let me try to answer your question.

You are right in terms of the return on equity. We discontinued the guidance. We do not have a guidance right now. The clearly objective of the bank is to maintain utilizing the capital in the right way. And this is a continuous kind of discussion on a daily basis, on a weekly basis. So profitability is going to continue to be the main kind of objective or one of the main objectives. We have already achieved levels of that guidance that was discontinued. I already spoke about efficiency, we are better than that. We maintain profitability around the same levels, be 21%, 20%. And we will continue to try to deliver on that sense. So that is no question. Now we are obviously discussing about the guidance. If we resume it or not and what is the best moment to do that and we will come to you as soon as that discussion is finalized. But we strive to continue delivering levels of profitability that the market will pay for. And I'm sorry about the mute thing.

A - Andre Parisi {BIO 21511610 <GO>}

Okay. Next question is from Mr.Victor Schabbel, Bradesco BBI. When does the bank's NPL ratio peaking? How does it should affect provisioning trends ahead of the decline seen in the fourth quarter?

A - Angel Santodomingo Martell

Well, the reality is that both NPL, cost of risk quality in general terms as you have seen in the slides has performed positively, that is a fact. So we are currently with ratios, both in terms of cost of risk and in terms of NPL, both the 15 to 90 days really, really quite attractive. We are speaking of around 2% over 90 and in 2.5%, the cost of risk.

Now I think we have two discussions here. One is the short-term? The short term, if we see how the economy may evolve what the supporting measures, how the supporting measures and liquidity measures to the individuals are happening in the evolution of them and how we may see the next months and speaking of months, we may see that the trend is marginally slightly, let me underline the marginal and slightly, but with some deterioration. Are we seeing that as of today? The answer is no.

But again, if I apply some rationality to the situation, I would say that those levels that I mentioned in NPL and cost of risk, would probably tend upwards. We are not seeing any leading indicator in that sense. We are not -- as you know, we follow a kind of ratios. Now looking a little bit further. So not only in the next months or what I would still see is that Brazil goes into a more stable in reform wise country where you start to continue to have more collateralized loans, as I have showed to you, you continue to have a more stable environment. My guess is

That structurally, cost of risk will be better, but that is a long-term view, okay? So we'll probably go through a short-term small deterioration. That could be happening, I don't know didn't. We are not seeing as of now, so I know this is first Q, first semester, depending on how things evolve here in Brazil on a macroeconomic point of view. And then probably move into a more positive standpoint.

A - Andre Parisi {BIO 21511610 <GO>}

Okay. Next question is from Pedro (Inaudible), Itau BBA. Fee revenues from current accounts were better than it was up plus 3.5% quarter-on-quarter and you are one of the first and last fastest adopters of peaks. Can you elaborate on how you achieved this between volumes, pricing and what is fair to assume growth in line in final year '21 as well?

A - Angel Santodomingo Martell

Okay. A couple of comments here. You're right. Insurance grew 22% on the quarter. Remember, I mentioned this during my presentation that we have seasonality here every fourth quarter. So that means that we have an income from an insurance premium that comes in the fourth quarter, which is a yearly premium, but it is better on the 4Q. So if we clean that 22% for that kind of seasonality, we are speaking of approx 3% growth on a quarterly basis, so annualized double-digit. We are quite positive on the insurance side. It is not a still the main fee line, but I would estimate that the trend would be in some time, not for -- obviously, for the first -- for the next quarter, but it will be -- if not the largest, one of the largest. It's already the third, as you can see, in terms of concepts, but it will clearly improve going forward.

The second part of the question was with regards to peaks. I gave some numbers with regard to peaks in terms of 15% market share. It is working pretty well. But let me share with you something that is kind of significant. I mean, we have -- as everybody registered a lot of clients with all its keys, et cetera. But we were doing on a monthly basis -- let me give you a second semester, okay, from July, August, September. In between 37 million to 38 million transfers per month, okay? As you know, peaks started by mid-November, I think it was 16th of November, and let me give you the numbers of December compared to what I just said.

In December, we made 37.1 million transfers. So absolutely in line with the number of transfers we had made in July, August, September, October. And we made also close to 30 million peaks transactions. So what is the bottom-line of what I'm saying? That clearly, we are maintaining the (Inaudible) the transfer operations. And at the same time, we are going into this new system, which means at the end of the day that the link, the loyal, the capacity to transact with linked clients is even higher. Because we are doing what we almost more or less did and using much more the peaks capacity. And this is pure linkage. This is clients being loyal and transacting more with the bank.

A - Andre Parisi {BIO 21511610 <GO>}

Next question is from Mario Pierry, Bank of America. What level do you think is a minimum that you would like to operate with? And what payout ratio should we expect in '21?

What level of capital? Okay, I would -- we have always given the guidance of around 12%. I think something between 11.5% to 12%. You know that last year, the payout was limited here in Brazil to 30%. I think with the announcement we made yesterday, I think we are in 28%, 29%, so close to the -- between the range. You have a minimum of 25%, a maximum of 30%. So we are in the range -- in the upper part of the range last year and that has meant that, we have accumulated a little bit more of capital. I would say that the level of capital here between 11.5% to 12% or around 12% is -- I wouldn't move my previous statements around capital. Obviously, again, as the country stabilizes, this level of capital is more comfortable, which leads to the second part of your question, Mario, which is payout.

Payout, I always say the same thing. I mean as you see we are at 20 plus -- 21.5% return on equity. Risk weighted assets are growing at around and will be growing. My estimation or our estimation is that we'll be growing in somewhere around low double-digit, 10%, 11%, 12%, which leads to approx 50% payout. So those are the levels which -- as a reference for you, with which we are working. Obviously, we will adapt depending on the situation the regulation that we had last year, et cetera.

Okay. Next question is from Gustavo Schroden Goldman Sachs. What is the bank's view regarding potential increase in SELIC rate? And what are the impacts on bank's NIM? So we expect a positive impact on the bank's name?

A - Angel Santodomingo Martell

Okay. Thank you, Gustavo. In terms of the SELIC, we said our macroeconomic department has an estimation that -- which is I think quite in line with the consensus that SELIC will start to go up sometime this year from the current 2%, so we will start to see movements. The next meeting, I think is March. And the other one is in May. And I think all the market has positioned itself with increases to kind of compensate the -- to try to adapt to -- also to the inflation levels, et cetera.

The NIM sensitivity, we have already communicated this several times. We are speaking of around 100 basis points movement. It's around -- I think it's BRL200 million or something like that in terms of sensitivity to the movement of interest rates. Now this is sensitivity to a dual curve parallel move in the full yield curve. So the fact that the SELIC goes up or goes down, if the curve doesn't move, it doesn't move my sensitivity, okay? I think that is important for you to understand. So for me, it's more important how the yield curve moves. At the end of the day, as you know, we have been lending, we have increased significantly the lending above one-year in the last year. So the collateralized movement also aligns with more duration in our balancing, improving or -- not improving, increasing significantly, which also means that you have more exposure, not to the very short-term, but also to the medium part of the curve, okay?

A - Andre Parisi {BIO 21511610 <GO>}

Okay. Next question is from HSBC, Carlos Gomez. Looking at the different segments, individual lending, auto mortgage, payroll, credit cards, where are you seeing the most competition? Are you still targeting credit cards as an aerial market share growth?

A - Angel Santodomingo Martell

Well, I would say that we see competition across the board. I mean speaking here, if you have more or less competition, but I always have said, I mean the Brazilian market is absolutely competitive. I mean, you're -- you mentioned auto. In auto, we have very strong competitors and they are continuously on a weekly basis, they are continuously adapting in price, in offers, we are the leaders there, we have a very strong positioning and we are increasing market share also there. But competition, I mean is important. I will say that, you will see growth in two parts of the balance -- more growth, not growth, more growth in two parts of the balance sheet. One is all the collateralized part, I mean the mortgages, agro, the different -- the auto lending, the different parts in which you see guarantees, payroll, et cetera, that is a part in which we have been growing and we will continue to grow, probably even linked with non-collateralized like consumer finance if the country moves from a strong positive territory. That is one part.

The second part probably will be outside the individuals on the SME arena, no? Corporates and large corporates, I am a little bit more conservative because specifically, obviously, capital markets will play its share and it's also its competition. In credit cards, you mentioned -- you were asking about credit cards. Yes, we are growing in credit cards. As you know, we stopped that growth a couple of years ago. We didn't like the environment, we lose market share on purpose and we are back on growth on that part of the -- and you saw the numbers. I mean, I mentioned we sold a little bit more than two months, 1 million credit cards on the ESG [ph] and the peaks offer.

A - Andre Parisi {BIO 21511610 <GO>}

Okay. Next question is from Otavio Tanganelli, Credit Suisse. Cost of risk is running below 2019 levels. Will there be a need for additional provisions in the future?

A - Angel Santodomingo Martell

Okay. Otavio, thank you. Well, the extraordinary provision we made in second Q, I have continually said that we think it's enough. So we are not foreseeing for the time being, obviously, things may change. The country may change the ether. But if we continue with how we foresee the future today and with the environment that we have today, we do not foresee additional extraordinary provisions as the one we made in second Q. In terms of cost of risk evolution, et cetera, I already gave my ideas there.

A - Andre Parisi {BIO 21511610 <GO>}

Okay. So now we're going to receive your questions from the phone calls.

Operator

(Operator Instructions) Our first question comes from Thiago Batista, UBS.

Q - Thiago Batista {BIO 15398695 <GO>}

Yes. Thanks guys for the opportunities. I have one question about the collection or the credit cover process. We saw a big increase in the recovery during 2020. I know that there did some changes in this process. So if you can elaborate a little bit more on how or what all the bank did to really increase this recovering process? And if the bank believes that this level should continue high in the next quarter? And a very small follow-up or a very small question. On the taxes for next year, do you have any indication on how tax should be in 2021?

A - Angel Santodomingo Martell

Okay. Thank you, Thiago. Yes, I mentioned through my presentation the recovery positioning that we have been performing better and better. And that we have a clear view that is one of the important parts we had already some time ago and we have been building, as you saw in the slide, that it is one of the important parts on the provisioning part. What are we doing there? What we are doing is that I showed it in the slide that we have been evolving throughout the time in terms of how we do things on the recovery side. We are focusing -- what we do is we hope, we do have a recovery area, obviously, but it really focuses in each of the areas, in each of the segments or products to really try to optimize both the level of knowledge, the data center, et cetera, we have and the digital capacity.

I mentioned that -- I mean, recovery traditionally was made physically. As you remember, then we started with a little bit of information. Now we are clearly on the digital side, which is -- it means digitalization. It means very important to integrate the distribution channels. So they have to be part of the recovery. I mentioned that we have 70% of the digital channels that are participating already on the regulization [ph]. And we have also kind of innovated here. Let me remember for you -- for example, troca com troco, which is on the auto side. If you have a car that is financed and you want to change it for a car that is of a lower level and in the exchange, even obtain money, we put on the market that product. We sign an agreement with our 15,000 car dealers and they have moved that recovery product to be one of its products. Each car dealer is offered as it would be his or it's or her product, which means that we are moving our recovery capacities outside the organization, making partnership with those car dealers, which is a new way of kind of recovering provisioning levels. Let me give you a number, 90%, of the provision that has been saved through troca com troco, through that system in which we subscribe with them the process is new. We wouldn't have done it with the traditional recovery capacity and that is very important, okay?

Operator

Our next question comes from Jorg Friedemann, Citibank.

Q - Jorg Friedemann {BIO 15405752 <GO>}

Yes, thank you very much for the opportunity -- (Inaudible) microphone. Thank you very much for the opportunity. I have one question and just a very quick follow-up, also please. The question comes on the GAAP net, actually, the whole part of strategy. I noted that cars in acquiring, even though growing 14% quarter-over-quarter. They grew only 4% year-over-year. And as a matter of fact, it reduced 8% for the last 12-months. So at the same time, turnover has been quite substantially growing both in issuance and also on the acquiring side. So just to understand, is this an effect of mix of clients or it's an effect on take rates? If you could elaborate a bit more, it would be helpful?

And a quick follow-up on the numbers. I noted that this quarter, we had a very significant increase in the contingencies for seasonal labor and tax litigations, 120% quarter-over-quarter. Just if you could give us some color there? And whether this is or not recurring? Thank you.

A - Angel Santodomingo Martell

Okay. Let me -- I did answer the tax question from Thiago, I think it was before. So Andre, can you elaborate on that? And then I will elaborate on both Getnet and contingency. I'm sorry, I forgot about it.

A - Andre Parisi {BIO 21511610 <GO>}

Okay, sure. So if fine question regarding taxes for '21, when you look at our -- I mean, estimates and issue estimates, and consider that we had already an impact of 10-months last year in income tax, increasing from 40% to 45%. And also considering the results. And we can see by now, we are spending something close in the factory tax rate to '21, from what you saw already in '20 was (Inaudible). I would say, I mean, I -- I mean, a big chance to be really close, okay? So this is what we have with you.

A - Angel Santodomingo Martell

Okay. On Getnet, what you were mentioning. Well, I gave the numbers depending how you take all these numbers and how you do the calculations. We will be, obviously, we -- as you know, we made a relevant fund yesterday by which management will be -- will have a positive opinion on the operation given to the Board in the next weeks. So that will also open whenever, if the Board approves, it will open probably for much more information about your question.

But what I would say to you, I don't know if I'm answering what you mentioned, but I mean, client is growing 16%, POS are growing 38%, which means that we are penetrating much more our database and turnover is growing 32%. Not enough with that, the anticipatory series and the receivables business is growing close to 40%. So those numbers -- and this is on a year-on-year basis. On a quarter-on-quarter basis, it depends a lot to your question, it depends a lot on the type of client -- I mean, for example, if you incorporate a wholesale client, which is large enough, that quarter you may dilute a little bit numbers. In this quarter in 4Q, we were very active on Black Friday, I think I put the numbers. We were leaders in the Black Friday with an amount of activity that was historic.

So the kind of volatility in between cases, it's -- I would really look at the year-on-year numbers. If you divide also by credit and debit, for example, in terms of also turnover. We are growing in credit 15% and in debit 11%. So all in all, the turnover is what I said 32% and transactions grew 13%, which shows what I said to you, is depending on the type of client that you incorporate in each of the moments.

The second question was about contingencies. You are right. There is volatility in between quarters. You have -- in this quarter, specifically, an increase, but I mean depending on the quarter here, you have some volatility. Let me -- I want to try to remember exactly the numbers, but what has -- if you take the last quarters, let's speak about the last five quarters. In the last quarter of '19, it was about 2,000 -- sorry, BRL2 billion, which has been the situation also almost in first Q, I think it was close to BRL2 billion. Second Q was clearly above BRL2 billion. And what happened is that first Q was a lower amount. It was 1 point -- I don't remember, it was BRL4 billion or BRL5 billion.

So what is happening is that Q-on-Q is growing, but it is probably returning to much kind of normalized or common levels compared to the past. If we speak specifically of contingencies there, you have three types, as you know, which are labor, fiscal and civil contingencies. And that you do have also volatility. Specifically, I would say more on the physical side, because it depends if you gain something or you lose something, when you have this type of legal processes, which depends on the quarter. It goes in and out. In this quarter, we have more negative performance compared to the previous ones. And this is how I would explain that volatility.

Operator

Our next question comes from Marcelo Telles, Credit Suisse.

Q - Marcelo Telles {BIO 3560829 <GO>}

Hello, Angel. Hello, Andrea, thanks for the time. Most of my questions have answered. Just have a follow-up on Getnet. You've been you've reached like a market share of 15%. Clearly, in the past years, your market share has increased. And where do we go from here? Do you still see room for Getnet to continue to gain market share given -- despite the fact that you guys already achieved a very high market share number of 15%. And where would that growth come from?

A - Angel Santodomingo Martell

Okay. Thank you, Marcelo. I would answer to you in the direction that I also answered probably the same question when we were at 5%, 6%, 7% or even 8% and there was a strong opinion in the market, in the Street, saying that, okay, we would reach our natural market share and that was about it because it was going to be impossible given the acquiring business to have more than our natural market, we are clearly above that one.

And why? Because we have moved the company in the direction of -- as you know, the mix is more retail -- 2/3 retail, depending on the moment at around 60% retail, 40% wholesale, first. Second, the cost per transaction that I said, et cetera. So that has made us competitive and we have delivered or developed during the last, I would say two, three years already, additional products to the traditional only POS as last credit business. So 50%, we are there. It will depend again on the same matters that I mentioned to you. I mean, will it be profitable? Would it make sense? Do we have a space to grow? I think that the long tail, a very small part of the market, this small micro kind of entrepreneur is -- we do have a space there, clearly.

We should be able also on the next kind of layer on this SME -- the small SME, okay? And then as you know, we are a bank, which is quite strong in corporates, bringing in payrolls. And when you -- you're not only bringing in the payroll, you bring the full -- or we try to bring the full range of products and that also means acquiring. Those probably are the main growth areas, but again, it will depend on profitability. But yes, I mean, the idea of being clearly a growth company going forward is what we are clearly seeing. It has very good competitive advantage, and it has been proved. This is a fact, this is not an estimation. So we are absolutely prepared to continue on that direction, if it makes sense. And the offering in terms of products or services is kind of a winning tool.

So yes. And if you add the potential operation that we announced and that we are now recommending and the Board will discuss in the next weeks or month or whatever it is, well, I mean the capacity that Getnet should have both because of size, both on the cost side and because of new products and revenues should even improve that. You don't have a kind of a global player in the acquiring business. Thank you.

A - Andre Parisi {BIO 21511610 <GO>}

So okay. We see -- I mean, that was the last question. So now we move Mr.Angel for the closing remarks. And thank you very much for joining us on the call. I also apologize taking all the questions at this time. It was -- I mean a big number of questions. We can obviously attend you any time from the IR team. Thank you.

A - Angel Santodomingo Martell

Okay. Thank you very much. As Andre said, if there is anything that has not been covered, please do revert to us and we will clearly answer the question, there is a clear objective of not leaving anything unanswered in this session. Thank you very much and looking forward to seeing you in the next occasion.

Operator

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