Q1 2021 Earnings Call

Company Participants

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

Other Participants

- Carlos Gomez Lopez
- Marcelo Telles
- Thiago Batista

Presentation

Operator

Good morning and thank you for waiting. Welcome to the conference call to discuss Banco Santander Brasil SA Results. Present here Mr, Angel Santodomingo, CFO; Mr.Andre Parisi, Head of Investors; and Mr.Sergio Rial, CEO. 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. (Operator Instructions)

The live webcast of this call is available at Banco Santander's Investor Relations website at www.santander.com.br/ir, 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 on information currently available.

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

I will now pass the word to Mr.Sergio Rial. Please, Mr.Sergio, you may proceed.

Sergio Agapito Lires Rial {BIO 1925337 <GO>}

Very good morning. So, this is Sergio Rial here speaking, so I am really happy to be part of the first quarter release which I cannot to be part of and the reason why I am here today is because I think in the last fourth quarter I was also not able, I was in Europe at that time. So, I think it's at least appropriate that I show up here.

Now, couple of thoughts I have here, so Santodomingo our CFO and Andre Parisi, the Head of IR, and the rest of the team. I'll try to provide some frame to the results you have seen which of course are a function of what we had done back in 2020, particularly in the first quarter.

I have seen that perhaps some of the analysts in particular have been more negative on the results of the first quarter than we had anticipated, so we certainly surprised the market positively in one way it is good, but in other way also senses the signal that there is an opportunity for us to narrow the gap in terms of what we are doing and how some of the analysts on the sale side are modeling the Santander Brasil's story.

So let's go with some facts. So, one of the things that I think has characterized the bank and the organization has been growth and profitable growth. And I think now entering into my sixth year of leadership as a CEO, I think I can say, with certain level of confidence that the culture responds well to look at the spaces where growth exists. And I think we've been very diligent in searching for pockets of growth in what has been a very difficult market environment in the last six years. Where has that growth come from, just a couple of thoughts and bubbles? One, we are one of the first banks to go into the interior of the country, opening branches, and creating a bigger infrastructure than we had in the past. Second, we certainly saw the agro opportunity, much earlier than perhaps the rest of the industry had seen, positioning ourselves, not only with new stores and points of distribution but making 300 stores totally and fully destined to serve agro-related customers.

Other piece that has been very-very important in our history has been creating and building what we would call a best-in-class recovery processes, we have recovery teams in the number of consumer-related businesses that I would say today they're best-in-class. And that's a function of technology, that's a function of process and that's a function of us believing that you cannot be in the consumer business, if you do not have very strong skills technically, technologically but also from a human capital point of view in order to help us to navigate what's -- what it is today still choppy waters. The other component from a strategic point of view that I would like the market to really reflect.

Over the last couple of years, I think the market has been very much of a prisoner around denominations of companies, banks, fintechs, broker dealers, insurance companies, and one of the things I would encourage the market to pay more attention is to what companies do, and not necessarily how they are described.

And I think the risk of defining an analysis of a company, just by each name bank; I think it's a potential big mistake. And I think we have proven that despite being a bank, in the eyes of many, we have been able to portray a very consistent growth story. And why is that? Because inside of Santander platform. There are a number of pockets of growth and sells that are growing much faster and it's upon us to make sure that we provide visibility and respect transparency to those growth engines. So, let me give you some more color to that.

In that respect our consumer finance business has been a phenomenal growth business and that's not only the outer business which in itself already commenced a significant market share of 25% plus, but also consumer goods. So we started to develop a much more robust consumer goods pillar inside of the -- inside of the consumer finance Santander Financiamentos. And that is a business that it's going to be a $1 billion -- BRL1 billion business in the coming years and it's not five years it's something that could be in our hands in about two years.

We have launched a very successful open channel digital credit platform called Sim, where in less than a year we were able to reach BRL1 billion of total assets, with very-very manageable cost of credit, and transforming that platform already into a profitable stream.

We have embarked on a much-much bigger investment into what I would call the equity space. On Friday, we're going to be formalizing the acquisition of Toro, which is a very focused broker-dealer out of (inaudible) with a particular focus on being 100% digital with a strong educational piece. We have integrated Pi, which was our fixed income -- digital fixed income platform into Toro, and together with Santander broker-dealer and Toro we'll continue to develop a robust distribution platform for Brazil that it's more into the equitization phase. We have created inside of the company a very strong culture on cost but not cost for the sake of cutting items, but making really deliberate efforts on reaching levels of efficiencies that I think we haven't seen in many other companies.

For example, not only our cost income it's best in class when you look in the world 35% -- 35.2% it's world-class and that's under Brazilian GAAP if you put under IFRS, we would be under 30% and that's only one bank in China would have a cost income lower than 30% that did not come on the back of just cutting items, it came on the back the back of us redesigning in a deep manner processes which we did announced three, four years ago. So we start telling that we would go for a much more industrial process redesigning and attacking the linkages that exists in a universal bank platform where there is quite a bit of waste if you don't really look in the level of detail end-to-end on a variety of processes. So, this is when you look at the first quarter this is the result of the discussion that we initiated three or four years ago and it's really serving as well in a very difficult environment.

Let's look now at the credit cards. We had made a deliberate decision in '19 to slow down credit cards on the back of my concern of bad credits, particularly Brazil going to a single-digit rate, and everybody borrowing and the leverage capacity of the country increasing tremendously at the individual level.

As we come to 2020, we were a lot more modest in our growth trajectory on cards. The pandemic comes, we're able to experience and task right after the first month, is right after the pandemic, we adjusted and improved our risk models, we put a lot more effort on defining, profiling, figuring out different segments. And our credit card business is growing at an incredible pace. Just to give you a sense in the month of March, we are able to generate 640,000 new cards. Most of them with consumers and clients of Santander, that had limits for cards, but were not being actively optimized or used. So when you compare the experience of a Santander card to any other player be it a single mono liner or a more classic universal bank platform, we come out very strongly.

So I could go on, on a number of fronts of things that we are doing with deep knowledge and involvement in the business. But I would like to end my discussion on the transformation that we're doing around the Santander as we call it, and what we are, which is the build-up of four significant distribution platforms. The physical branch is as -- the physical branch network, we will continue to expand in the interior of the country on a completely more tailor-made model, nothing to do with what you have seen from a classic bank branch but stores. They are really catered to serve specific segments in where Brazil grows which is in the interior that will continue to exist.

All the other branches as we call them they're going to have to become and they are very close to that to become absolutely paperless. We're looking at every channel to become a point-of-sale, our ATMs, which are now active sales point are now selling credit so a consumer and a customer can walk into a Santander ATM and line up a loan and get the money out of the machine and the loan digitally signing from the ATM. ATMs today represent a very important point of sales which wasn't in the case. Third, so the physical infrastructure is going -- is being completely reconfigured. The second which is not dissimilar from any other organization are the digital channels. The difference with us is that I wouldn't call it difference, but that what we pay attention. Cost of acquisition in Santander moved from over BRL100 per customer to somewhere in the vicinity of BRL50.

So we were able to reduce significantly cost of acquisition on the digital channel and the digital channel today already represent on renegotiation on loans take-up, somewhere between 50% and 60%. So it's a new engine with profitability that did not exist four years ago. And that's an element that explains why NII has had a good performance. Why we have grown, in the way we have grown, because we're adding new distribution channels with a very clear eye on profitability.

The third distribution platform is what we call remote channel which is a combination of what I would call the second line to make the digital customer that went into a digital channel profitable, which is the human interaction with intelligence, is when you have a follow-up call with a customer that has become a Santander customer through the digital channel to see what else can we actually do to make that customer a lot more as we say it in Portuguese (Foreign Language) with a higher degree of loyalty to the organization.

We have 2,500 people today working in that remote channel. And most of those people are not even in the call big urban centers so, the remote channel is going to have, it's almost going to be another Santander bank happening as a force to back up the digital channel. So that's the fourth -- the third.

And the fourth and the last is what I would call the outside world. So how do we engage with other players from independent ex-Santander bankers, other bankers, other FinTechs that are providing and having access to a world of consumers in Brazil that we can connect smartly as another potential distribution platform. So, the four platforms are receiving from myself as CEO a very specific focus and I plan to transform Santander in one of the most effective distribution platforms of this country.

With that I stop. I would like to once again thank you for your interest, your support and believing in the story of Santander. So I'll pass now to our CFO, Angel Santodomingo. Thank you very much and have a good day. Thank you.

Angel Santodomingo Martell

Thank you, Sergio for your words. You made a very good summary of where we are and what are our growth capacities and prospects are. I will elaborate on some of the ideas that Sergio share with us, through the slides that we have already posted on our website. And then we will open for Q&A also.

So, starting with the first slide. I will, as always begin the presentation with an update on our strategy, followed by an overview of our quarterly results and finally my closing remarks. And as I said opening floor for the Q&A.

So we are delightful are we, yeah. We have started the year with the best quarter in our history as has been mentioned not only in net profit, but in several metrics and performance ratios with revenue as you can see, growing around 7% year-on-year in an increasingly linear structure as has been mentioned. And profitable market share gains in key segments of our businesses like the four examples, you may see in the slide. As a result, we were able to post a record net profit of just above BRL4 billion, building almost 21% return on equity return for our stockholders. This work has been recognized by the market as you can also see in the bottom of the slide, with several awards that we have received in these recent months.

Next slide, we understand that in order to keep delivering high levels of profitability, efficiency must be one of our top priorities. Over the last years, over the last three, four years as Sergio said we have looked into ways of how to boost efficiency in our production with the goal of lowering unit costs. We improved and let me give you some examples I mean we have improved for example mortgages, our all the real estate lending unit goes by close to 20%, or in the consumer finance more than 20%, in the capital, this is our product that is quite a Brazilian unique product has gone down by over 70%. I mean, we have been building a culture of lower unit cost and we have several examples in that sense.

So we have contributed to make good process -- good evolution in at least until the last quarter, we are the best in class in the industry in this ratio, in efficiency ratio, that as you can see, it has improved to 35.2%, that means 180 basis points lower than last quarter, and it reflects that we continue as has been mentioned to manage the banking that way.

So we continue to work to optimize expenses by giving our customers agile solutions with streamlined processes, so this was the first part in terms of our shareholders, the next three parts, I will speak about people, about communities, and about our clients. So in the second part which is about people, the second on this slide. In order to achieve sustainable results what we tries to have employees aligned and engage with our vision and we believe this is one of our main assets. We have built a corporate culture with very good, very strong values based on meritocracy committed to doing things the right way and close communication with the leadership. And as you can see in the slide, for example, the Cafe com Rial, which had more than 90% of our employees connected. We care about the well-being of our employees which is why at this still sensitive time we provided medical assistance via telemedicine and advanced the full payment of the 13th salary in the month of April instead of the usual 4th Q payment. And because we believe that diversity is built through concrete steps we had established an agenda as an internal priority.

On next slide, which will be my first part in this introduction or strategic introduction, speaking about communities. As you can see, we continue to work with them with the communities in which we operate. As we aim to contribute to the development of a more sustainable future. We have a specific target, this is not about general things, to reduce carbon emissions, help with environmental conservation and increase the use of renewable energy sources. We continuously try to give back to society through social initiatives, such as fighting hunger, investing in the future of children in need, and assisting the elderly in vulnerable situations, and all of this, with the collaboration and participation of our employees and customers as private donors.

On next slide and moving to the fourth part of this introductory, strategic introductory thought. As you can see, we continue to strengthen our distribution channels, and win new customers, thanks to an increasingly digital experience, Sergio mentioned about this. In the first quarter, we achieved significant levels of new customer acquisition, and card insurances through digital channels. For example, we moved for the first time to be the third player in card turnover market share.

To improve customer experience for example, we launched GENTE that is, on the bottom left of the slide, Santander's artificial intelligence, which focuses on faster and more agile solutions for customers accessing our digital platforms. With this technology and I mean you can see numbers which are amazing we have managed to reduce the number of calls to our call centers by 46% while serving more than 1.2 million customers every month. We have more than 19 questions registered being able to answer 19,000 sorry questions registered are being able to answer over 6,000 or 7,000 answers to those queries.

And in addition our app has been constantly evolving with visits increasing by almost 40% year-on-year and accounting for roughly 75% of all our visits across our digital channels. We have almost 500 million digital visits per month, and an evaluation of 4.7 rating in the digital shops which is absolutely positive and high.

On next slide, and this still is speaking about clients, you can see, we try to put through capacity of growth in our potential -- future potential. Let me share with you some of these client numbers. Today, as you can see, Santander ecosystem has over 48 million customers divided basically in two groups. On the left of the slide, you can see that almost over 13 million which are account holders. All of them with different levels of loyalty is 6.4 million with six products or more and 7.1 million between three and five products. And these groups generate the majority of the revenue as you can imagine. But there is another group within the bank of an additional as you can see 14.7 million plus, another 20.4 million customers, which have either up to two products or that have excuse me, that have large potential of engagement those who have not engaged in any banking activity with us for more than 90 days and both these groups offer a great opportunity.

The first group account holders as one would imagine are far more profitable, this 22 times that you can see in the bottom of the slide. Therefore within our ecosystem, not only we grow actually, and today with new clients but also in our ecosystem, we have an enormous customer revenues potential that are already starting to be worked out.

And for all this, finally, in this slide, customer service is quality as always. We think is a differentiating factor, which is reflected and we measure through our MPS which is a still, which is at over 60 basis -- 60 points, 61 points, which is quite a high level.

Okay. So, now over the next few slides and I think three of them. So I will try to be quick. I'll discuss our quest for sustainable growth through new ventures or new characteristics of our ventures. First one is slide 11, in recent years as you know we have launched several digital initiatives that will play a critical role in Santander results in the future, at least as we see it.

We are now growing in core businesses, but also exploring the positioning our first -- as first mover in different businesses as you can see.

Sim, our lending platform has already reached a loan portfolio of 1 billion and more than 3 million customers in just over a year of life. Santander Auto, on our 100% -- over 100% digital insurance company already has 15% in penetration in our consumer finance unit, for example. Finally at the end of last year, as Sergio mentioned, we announced the merger of Pi and Toro, combining different sets of expertise in one company. We expect to be doing the signing in the short-term and similar the closings -- sorry not the signing, the final closing. And similar positive messages (inaudible) emDia and Ben, you have the details on the slide.

Moving to the next slide, to Slide 12. Let me remind you I mean, we just put here the main numbers about GETNET, but let me remind you that GETNET's spin-off was approved as you know by the extraordinary general shareholders meeting of last March 31 and we have the expectation that the listing may take place in the second half of this year. The first quarter results continue to be encouraging with an increase in active customers and revenues as well as a decrease in unit costs and you may see the numbers there, the variations and how we are growing in the type of environment that we have as you can imagine in Brazil. We estimate a total market share because there are no official numbers yet of approximately 15% in the first quarter and 25% if we consider only digital turnover.

And finally in the next slide, I wanted to underline our leadership in the wholesale segment, which consolidate our position as one of the best banks for large companies. We are the only international bank in Brazil with a complete offering, being leaders in advisory and project finance and having the largest trading desk for clients. For the eight, so it's eight years already, consecutive years. We are the largest forex -- bank in terms of forex.

In the quarter, we participated in more than I mean, almost BRL20 billion more than BRL19 billion of equity offerings, and traded 78%, almost 80% of total, CBIOs. As a result of these good, very good I would say performance. We delivered an increase of 60% year-on-year increase as I said in earnings for this segment.

Okay. So let me move now to what our Santander Brasil numbers and results. So, on the Slide 15, we present these full details of the P&L. We close the period with the mentioned net profit of just above BRL4 billion, the highest we have ever reported for a single quarter, representing 1.4% increase compared to fourth Q, 2020. This it is important and we'll probably speak about this on the Q&A session that our earnings before taxes increased 18% year-on-year and 12% Q-on-Q I can elaborate a little bit more on that difference.

Let me highlight some of the figures you see on the slide. On the revenue front NII growing 8% and 6% relative to both last quarter and last year, reflecting a positive evolution of our loan portfolio, improved mix and market activity performance. Fees increased 8% over the same period of last year. Here customer base growth and higher activity boosted cards asset management, and financial advisory revenue. The line decrease from 4Q due basically to seasonality, I will elaborate later on.

And on the expense side, provisions remained under control, declining 10% or 8% year-on-year. And rising the same amount in the quarter, the 10% percentage during the quarter. General expenses are under a strict control, having contracted by 1% and 5% both year-on-year and Q-on-Q, fast improving efficiency. So efficiency ratio I mentioned, 35% -- 35.2% our lowest ever and probably again as has been in a series of quarters already the best in the industry. Recurrence ratio reached a level of 92.1% if not the highest one of the highest in the sector. (Inaudible) capital remains at a solid 12.6% and our return on equity remains at very high levels almost record highs of around 21%.

The next slide shows the evolution of our NII, highlighted by customer NII which advanced by 6% on the Q and 4% year-on-year with product NII benefiting from positive volume dynamics. And as you will see on the next slide, spreads have started to recover given the better both commercial efforts in our change of mix.

NII from market activities continues to perform well quarter-over-quarter and year-over-over. So in that the area that was redefined two years ago, our treasury department is already settled and delivering good results, sustainable and good results for more than a year now.

Advancing to the next slide, we can see that our loan portfolio -- 3% Q-on-Q and 12% year-on-year to the 425 billion at the end of the first quarter as you may see.

The individual segment combined -- sorry continue to outperform with mortgage and payroll loans boosting growth. Corporate lending also saw a positive performance partially due to an strong ForEx rate. Regarding this impact the total portfolio will have grown around 2.5% in the quarter. The consumer finance and SME portfolios both experienced a 1% Q-on-Q growth amidst this challenging scenario that I mentioned. It is important to note that 76% of individuals loan book is comprised of collateralized loans. So it's 3/4 of the portfolio that is collateralized.

Finally our deferred loan portfolio that as you know we have been following since second quarter last year totaled BRL36.4 billion which means that we have had an amortization of more than 13 billion since its inception in the first half of 2020. The 15 to 90 days NPL in this portfolio, has reached 5.8%, climbing from 5.5 in the previous quarter, and which compares to our 5%, 5.2% in the whole back, so it's a reasonable levels.

On next slide, Slide 18. You will notice that our funding has been very stable with an strong liquidity position. We have seen a stabilization of funding from clients, if you remember that we had an very strong slide to quality last year. Basically reflecting the general macroeconomic situation, which consolidates this strong growth we had in 2020. At the end of the quarter, our BIS ratio is stood at over 15% with our core equity Tier 1 at 12.6% both quite a strong levels for our type of business.

Fees, moving to fees. The brighter spots here, I would say in the quarter were credit cards, asset management and financial advisor. Cards grew 9% year-on-year, with higher transactionality and total turnover. Asset management increase on the back of consortium funds, rising 32% during the year, and financial advisory I mean, in main margin, what this includes, includes, placements, custody, securities brokerage services et cetera went up by 42% given what we have all seen during the first Q in terms of capital markets activity.

In the quarter it do have negative variations with fees declining if compared to last quarter to fourth quarter 2020. This has been caused basically or by the traditional seasonality between as usual a strong fourth Q and first Q that tends to be more normalized, and also due to new products.

On the next slide, we can see how our asset quality has evolved, and I am in Slide 20. It remained as you can see I would say at good levels in the quarter with a high coverage ratio which reflects our solid balance sheet. As expected given the traditional early year seasonality and this is quite normal short-term NPL that diluted by 80 basis points, Q-on-Q reaching 3.6%, it's still lower if you compared to last year, and it shows the normal performance of the first Q. The 90-day NPL remained at a healthy and comfortable ratio of 2.1.

With a coverage ratio of almost 300, 283, we believe that the current level of additional provisions on our balance sheet is adequate. You can also see that our loan loss provisions, is still under control. We have provisioned less than one year ago, less than in the first Q of 2020, about 100 million less. We have recovered more approximately 250 million, and all these with a loan portfolio, let me remind you the growth of the loan portfolio of 12% year-on-year. All this is reflected in a lower cost of credit. The 2.6 that I mentioned when compared with one year ago. This performance again reflects our diligent lending practices and loan recovery efforts.

Next slide shows how our expenses have performed. As we have already commented in our opportunity -- in other opportunities, we have an strong efficiency agenda, which contributed to our expenses growing well below inflation. As you can see, we had an excellent quarter decreasing 1% year-on-year, minus 1 compares with an inflation of 6, I think it's exactly, 6.1%. So in real terms is 7% now and down 5% in just one quarter from the first quarter. I really think these numbers speak for themselves.

This quarter performance highlights again our commitment to productivity, which was mentioned at the introductory words by Sergio, as a result of the industrialization strategy for processes, improving our efficiency ratio by almost 200 basis points in the year to 35.2%.

So coming to the end, moving to my last slide and the conclusion of the takeaways and to conclude the presentation, I would like to underline the following final points. We keep on delivering with consistency, after six years of profitable growth we'll continue with the same trend. Good business dynamics based on three solid pillars, rising net interest income, expenses well below inflation, and cost of credit controlled and lower than in 2020. The lowest efficiency ratio we have ever delivered 35.2%, and probably a very good recurrence ratio. Return on equity hitting 21%, despite the macro environment. And finally, as we said, our unique corporate culture, deeply committed to both results and society.

So with this, I finalize my presentation and I think Andre that we can go to the Q&A session. Thank you so much.

One moment because I think Andre has had technical auditive problems. But he is just moving to another microphone. So let's try this one, Andre.

Questions And Answers

Operator

(Question And Answer)

A - Andre Parisi {BIO 21511610 <GO>}

Thank you. Okay. So first question is from Mario Pierry, Bank of America. Central Bank seems to have embarked in a trading [ph] cycle. Can you discuss the fact of higher rates on your P&L?

A - Angel Santodomingo Martell

Well, the pure sensitivity, the NIM et cetera, we have always shared with you. We have a sensitivity to -- remember the sensitivity is a 100 basis points, parallel move, which normally doesn't happen as theoretical as I'm saying. But we have a sensitivity -- of a sensitivity of around BRL400 million, okay.

Now, here you have different things. Here you have to consider, how they behavior of in the current scenario of prepayments is happening and is going to happen, which obviously reduces the duration on the asset side. At first point, we are having us in other countries and economies are very high level of cash and liquidity in the economy and this has been reflected here. We have on the liability side, you can always discuss the duration of things like side accounts, (inaudible) so term deposits or even capital in other instruments, and obviously we have the hit.

So, at the end of the day, what we try -- and then you have the movements in the curve that they tend not to be as parallel as the theory says. So the curve already embodies an important tightening cycle, probably more intensive than the reality and we will see if that happens or not. Then obviously, you saw on the spread side, we have been -- we have started to recovery part of the spread that we had been losing in the contra dues [ph] cycle. So we have to put all that on the same kind of discussion, but giving you numbers, those will be the numbers.

A - Andre Parisi {BIO 21511610 <GO>}

Okay. Next question is from Thiago Batista, UBS. NII and credit post a good performance in the first quarter '21. Can you comment on the main drivers of this expansion?

A - Angel Santodomingo Martell

Well, we do have what it -- what the traditional kind of activity is reflected here, which means new clients both from the ecosystem and from outside of the ecosystem, we are growing in a 100,000, a 100,000-plus new clients per month, so that continues to be a good input.

But if you want to speak about volume and spreads and mix, what I would say is around half of the effect would be volume in the spreads both positive, okay. But more or less equally divided and I'm speaking about approx. If I did that I mean things like number of days of the quarter, I mean let's do the analysis like-for-like, because if not we're going to other discussions. So, approx half on that concept and the other half a little bit less I would say would be mix, because as you have seen in the portfolio, we are growing more on the retail side compared to corporates, I mean it depends. So the mix is also adding a nice part of the NII on the asset side. And as I said the spreads being managed in the positive direction or in the -- being enlarged, okay.

A - Andre Parisi {BIO 21511610 <GO>}

Next question is from Victor Schabbel, Bradesco BBI. Core capital indicators recovered and are at healthy levels. What's the management's feel about optimum capital levels going forward?

A - Angel Santodomingo Martell

Yes. Well, you're right. I mentioned in my words that we are in a very healthy levels, I would say. I mean, this ratio of above 15% and specifically core equity Tier 1 of -- I mean the level that we presented to 12.6% or 12.5% something is high, my understanding is the same one. So we announced our dividend, a couple of this -- sorry, yesterday, we announced our dividend. That dividend obviously will adjust the core equity Tier 1 in this month, in April, which will put the core equity closer to what I have always shared with you, as what we see, what will be the reference for us in terms of core equity.

Well, I would say 11.5% to 12%, which is what I have been saying with you for the last year, so I would say at and least quarters. So again, as always the amount of payout and dividends will be a deduction of growth on risk-weighted assets, and the return on equity and we will keep on with the same policy. In terms of having the right core equity Tier 1 to be with the -- with an enough buffer in that sense, okay?

A - Andre Parisi {BIO 21511610 <GO>}

Next question is from Pedro (inaudible). Provision expense rhythm [ph] versus the raise in early NPLs is to -- is not too obvious, especially given the weaker [ph] economic outlook versus what we had back in December and then renewed economic dip in March, April. We know what COVID ratio is just an output for you. So you couldn't have relieved -- or I'm sorry relied on that for decision-making on provision expenses, which lead us to think that you expect a strong economic recovery, is that the case?

A - Angel Santodomingo Martell

I think Pedro that here we have to differentiate with a discussion in between, what is the environment? You perfectly said in your question, what is the environment? We don't look at the coverage ratio. And to differentiate, it will be the short-term volatility from the structural moves, okay?

So let me elaborate a little bit in quality here. As I said in my words, the 15 to 90 days, first, tends to be volatile, second, tends to be seasonalized -- has a seasonalized effect on the first Q. So its traditional that in first Q, the 15 to 90 days goes up. In my slide, I presented to you, and you can see the high levels of the first Q last year and again lower than last year, but picking up in this first quarter, so, that's the first idea in terms of normalization, if we can say that word of what happens in the first Q.

The second idea is what are we saying -- seeing today, okay? What we are seeing today are -- we are not seeing whirring [ph] leading indicators, we are still seeing credit quality under control. Again as I have -- I think I have repeated that -- this in the last four quarters. If you ask me to be logical or rational given the situation, at some point we should see some pickup but we're not seeing it. As I said, level of liquidity and the level of transactionality that the Brazilian economy has, probably the image outside of the country is worse than the reality, because you do see transactionality. Obviously, April in terms of transactionality has been lower than the traditional months in that sense. But, we have seen all that activities in the rank with positive trends, and I don't know if you go to the mall, kind of sensitive ones, we're speaking of 10% decrease. So I mean it's quite reasonable for what is happening.

So I want to say that we are expecting and a strong economic recovery, I don't think this is a position of the bank. But what we do follow very closely is every kind, as you can imagine, those sense of matrix on the risk side, and this is what lead us to the position in which we are. In terms of provisioning, I mentioned also in my words, as you know and I have shared with you, we probation what our models say, obviously, on top of the legislation and the provisioning that we are making today is in absolute terms lower than first Q 2020 with a book -- with a loan book growing 12%. And, we are recovering from almost BRL500 million to BRL750 million in the quarter. So that is what is really driving is both control quality, knowing where to open and to close, and our capability and recoveries that used to be clearly below BRL500 million during a long time. And if you take the last four quarters -- or the five quarters, it's clearly more close to the BRL750 million per quarter.

A - Andre Parisi {BIO 21511610 <GO>}

Okay. Next question is from Jorg Friedemann, Citi. Getnet continues to grow very strongly but revenues have now followed the significant growth in TPV. Would do you say, this is purely reflect by mix or also due to strong competition leading to lower take rates?

A - Angel Santodomingo Martell

No, I think it's basically mix, but obviously, you have both things. I think the numbers of getting it. As I said in -- I went a little bit quick through them, but I mean, they are -- they speak for themselves. I mean you -- if you take whatever, no, the active base growing 14% year-on-year, TPV as you said 47%, turnover or receivables prepayment, for example, 64%. And cost per transaction, you remember, when I presented in last in 4Q, I said 32% was or 30% was the cost, but in the last month we had 28% or 27% now we have 26%. So it's a continuous improvement of unit cost.

I would say Getnet has positioned itself as a both technology/acquiring player. He -- they are achieving position of an -- a strong position, not only because of the 15% market share, but because they have 25% or close to 30% in e-commerce, for example, things also -- so the tools that they are offering, they are offering throughout our new capacity that facilitates all the payment process. I mean, they have a lot of things that they are offering to clients and that is why they are keeping market share and they are growing. The P&L is speaks for itself also a 110 -- a business as usual a BRL110 million for the quarter. So, I mean, extrapolating that number, you can easily imagine the type of growth that you will be seeing in Getnet.

A - Andre Parisi {BIO 21511610 <GO>}

Okay. Thank you. So now we are going to receive your questions from phone calls, okay? So we're going to open the telephones.

Operator

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

Q - Marcelo Telles {BIO 3560829 <GO>}

Hi. Good morning, everyone, and congratulations on the very strong results, very strong start indeed. I have a couple -- I have a couple of questions. The first one, if you can elaborate a bit more on the margin expansion on the client NII. If you can comment a bit on how -- if you are starting to see a recovery in the revolving credit lines and if there was potential driver of the better margins that we saw in the first quarter?

And the second question is, if you can comment a little bit on the decline in your CET1, if you can -- what was the impact related to Getnet spin-off if any, I understand there's also some mark-to-market losses in the quarter. So if you can help us understand the decline of 30 basis points that'll be great? But once again, congratulations on the results.

A - Angel Santodomingo Martell

Thank you so much, Marcelo, both for your congratulations and the questions. Okay, NII, I don't know, I mean, you have -- asset NII in which I mentioned the impact in terms of spread and mix in volume usually, so again 50% for the volume and spread, basically 25%, I'm making very rough number, so don't get me by the -- by decimal, okay?

And mix, what is happening in terms of mix that we are growing nicely in individuals, and within individuals both in the higher spread, it's a little bit of split because you also have mortgages et cetera, but that is growing nicely. We -- for example, in mortgages we -- as you know, we have the lowest yield in the market or one of the lowest, but we also have the home equity piece, which is being successful and is being sold at double-digit yield for the client. So if you mix it up, you end up with a nice return on equity or return on risk weighted assets on that product, no.

So, you have this type of volume evolution, payrolls has had a more normal quarter, but it's still growing on a year-on-year. I mean you do have the different credit cards, we mentioned, we have sold a lot of them and that means that the -- all the credit from the credit cards is growing also nicely and you do have the breakdown. So I would say volume is good, April has continued to be good. So as I said probably the image of Brazil is, was on the reality in terms of transactionality and things happening here. Considering that probably April has been the worst month in terms of the pandemic, okay? But I mean the full organization is putting a lot of focus on the revenue side and specifically on trying to manage spreads, okay?

Your second part of the question, which is a very good one. Let me try to answer the both parts of the question. You do have depending on the market, so as you know, you do have a market -- an adjustment due to the market, in terms of the portfolio that we have in the bank. This has been negative in the quarter around one point something, something BRL1.5 billion, I think it is. But if you look at the last quarters, given the market evolution, you tend to have similar impacts, okay? They have moved in between BRL1 billion to 1.5 million -- billion.

So, the market-to-market impact on that part tends to be, but obviously, we depend on the market. So the volatility sometimes on the capital ratio comes from that side on top of also ForEx, okay. You know about the ForEx, the hitch made on the ForEx investments that was halved last year. So last year we had more sensitivity than we have this year, but there is still real depreciates, you do consume capital. And I remember you the real closed, if I remember, well, the year at 519 and has closed the quarter depreciated. Now, it has recovered. So those two effects.

On the Getnet side, what has happened, there you had a goodwill coming from the acquisition of Getnet. So what we did is we -- on the accounting side, okay. On the of the numbers you see from a management -- from a GDL [ph] point of view, there is no impact. But on the accounting side, while we did to try to leverage on that possibility that obviously is a goodwill that the propriety of that goodwill is the bank, because he was -- is the one who acquired the subsidiary. What we did is, we both eliminated that goodwill against creating DTS deferred tax asset carry forwards and at a positive impact on the -- by the remaining on the base for the calculation of the tax -- of the taxes, okay?

So those are the two parts of your question that you mentioned. And the numbers are briefed in our reports. Let me -- I'm speaking of taxes and there were a couple of questions around taxes well, let's hear the phone, and if not I will address them because I think we didn't answer them. Let's hear the next question and if we don't get that question I will elaborate on that, so I don't make it too long answer on this question. Thank you, Marcelo.

Operator

(Operator Instructions) Our next question comes from Mr.Thiago Batista UBS BB.

Q - Thiago Batista {BIO 15398695 <GO>}

Yes. Hi, guys. Congratulations for the results. I have two questions. The first one is about tax. So in this quarter, we saw the tax rate of close to 40%, 38%. Even considering the BRL400 million of credit assets from Getnet. So my question is, what is the -- do you see normalizes level of taxes that the banking is expecting for this year?

And my second question is about the potential expansion of clients of Santander Brasil. The bank had about 28 million, 29 million clients, active clients, and you've shown is like nine that you believe or the bank has had a 48 million clients not -- and some of them not active. So what's the revised strategy to transform those 20 million clients that are not really active now, to active clients, especially, considering that the large offer of free products from many of the newcomers?

A - Angel Santodomingo Martell

Thank you, Thiago, again for your congratulations as Marcelo and for your couple of questions. Okay, on the tax side, yes, we did have -- what I explained in the previous question, the positive impact, the minor positive impact of Getnet. But what happened in this quarter is that we didn't pay interest on capital, okay.

What we do with interest on capital as you know is, we optimized the tax rate and that will happen through the year and you will see that coming across and potentially impacting possibly the tax rate. So, yes, we do have a large tax rate this quarter, in fact, I mentioned we are growing close to 20%, 18% pre-tax, 4% post-tax, obviously, we will try to optimize that part of the P&L and it will potentially happen as the year goes by. I will say as we have always shared with you that we will be closer to the 30% and then to the 40% that means I don't know 31%, 32%, 33% it will depend on the capacity that we have to optimize that line of the business, remembering that obviously we have a second Q with a 5% additional tax rate as you all know.

On the client side, you are right. I mean on that slide, what we try to show to you is that, we do have, I mean, we are growing a lot in open market, good. But we do have a kind of a part of the ecosystem in which either we have the mono liner, which is basically our financial consumption unit or those clients that has not had a relationship with us during the last 90 days. They may have had it six months ago, but they don't have it today.

So what are we doing? On the consumer finance side, we are already cross-selling, which is the traditional world that a lot of banks say and do not execute. So what are we doing? We are already opening current accounts, it's totally integrated in the bank app, the consumer finance offer. And on the other way around the same thing clean and quick. You may enter in the app and check that. That means that we have been, for example, opening during these first months around 20,000 current accounts per month through the consumer finance unit and will come older products that may be closed.

We are targeting to sell this year on that unit, for example, 350,000 accounts, which means that we will have to move or we will be moving that 20,000 per month to more than 30,000. So, that's the mono liner. The column I put with 15 million clients, which is up to two products. And then we have the other product -- the other clients, which as I said have not had a relationship with us in the last 90 days, in which, I mean they have -- they are there, we have their relationship, we have their details and we will be offering to them these products. We elaborated and so you mentioned that on the digital side, we are being active in offering to them this kind of potential reestablishing that relationship that existed or that for some reason they left for some time and it's starting to be successful. So you have the open waters and you have the closed waters if I may say that in terms of potential activity, so you did get the idea quite good Thiago. Thank you.

Operator

(Operator Instructions) Our next question comes from Mr.Carlos Gomez with HSBC.

Q - Carlos Gomez Lopez {BIO 19127284 <GO>}

Hello, Angel, and congratulations also for the results, the results are very good. I had a question on the taxes, I did want to know if you are going to update the value of the DTAs for the second half of the year, and whether you expect a very different tax rate in the second half, but you're already indicating that you expect closer to 30% for the year, so maybe not? Second, I wanted to know what your vision is for loan growth and deposit growth for this year and next year, as we move away from the pandemic, and we normalize? And in particular, we have seen this enormous deposit growth, not only for you, but for all the banks in Brazil, should that normalize, and should we see a decline at some point? Thank you.

A - Angel Santodomingo Martell

Thank you, Carlos, again for your congratulations and the couple of questions. In terms of DTAs, we have already, on the accounting side, as I said on the managerial side, we did not have an impact. On the accounting side, we have already registered them. Obviously, 45% of the goodwill, the other 55% is the one that we have used to compensate minorly the payment of taxes, and that is how it remains for the time being, we had -- we do not plan to do small movement but to use them obviously, growth, okay.

On the loan side, what you have seen, we are growing double-digit. We are still growing and we are growing with -- I'd say, we are growing on the individual side and we are growing also on the large companies. What maybe be expected? I would say that in terms of volumes, the economy will end up or the country with end up growing somewhere around 5% plus, 6%, 7% with a private banks probably get -- is still gaining market share, we have been gaining market share for some quarters now.

So, I will bet on something like high single, low double-digit but probably the composition is the important one, because that affects also the NII. The composition will be stronger on the individual side, SMEs and medium-size to be seen with the economy, I already elaborated on the economy for. And large companies will depend a lot on capital markets and also on the -- on how one year after the pandemic evolves all that liability, and all that liquidity that was gained by them. How it evolves, no? This is one of the reasons why your question on the liability side, while we have seen more of a flatter quarter, no. I mean, you do have a little bit of a handover of that excess leverage coming back and first the flight-to-quality not been as intense and strong as we saw last year, which was 30%, 35%, 40% with very strong numbers.

I would expect a larger growth on the asset side compared to the liability side. So opening a little bit the gap, but it will totally depend on the economy. One of the things that probably that we all do not have and for sure, we are not using that for our forecasts is that as soon as the economies and the countries start to normalize on the pandemic side, we could have and a strong growth of transactionality, asset side, and potentially liability side. So that is happening. It happened in China, it is happening in United States, and it will potentially happen in other countries as we go through the vaccination process. But again, this is something that -- something to consider in the future, we are not working with those numbers, at this point. Thank you, Carlos.

Operator

(Operator Instructions)

A - Andre Parisi {BIO 21511610 <GO>}

Okay. Thank you very much for joining us today. It was a very strong results as you have seen. Once again, we are available here for any further questions, and it'll be a pleasure to talk to you soon, okay? Thank you very much. Have a good day. Bye.

Operator

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