

Y 2021 Earnings Call

Company Participants

- Angel Santodomingo Martell, Vice President Executive Officer, Chief Financial Officer and Investor Relations
- Gustavo Bahia Gama Sechin, Head of Investor Relations
- Mario Roberto Opice Leao, Chief Executive Officer
- Sergio Agapito Lires Rial, Chairman, Chief Executive Officer

Other Participants

- Marcelo Telles

Presentation

Operator

Good morning, and thank you for waiting. Welcome to the conference call to discuss Banco Santander Brasil S.A. Results. Present here, Mr.Sergio Rial, Council, Chairman; Mr.Angel Santodomingo, CFO; and Mr.Gustavo Sechin, Head of Investor Relations. All the participants will be on listen-only mode during the presentation, after which we'll begin the question-and-answer session. (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 the questions received via webcast will have answering priority. (Operator Instructions) Before proceeding, we wish to clarify the forward-looking statements may be made during the conference call relating to the business outlook of Banco Santander Brasil operating and financial projections and targets based on the beliefs and assumptions of the executive part 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.Rial, you may proceed.

Sergio Agapito Lires Rial {BIO 1925337 <GO>}

Well, very good morning to you all, thanks for joining us in today's call. This is going to be my last call as CEO of the previous year 2021, so basically materializing six years of very interesting story. So without any further ado, let's go to Slide 4. So here this slide shows -- is the slide with a headline businesses evolution and transformation. I mean, it's a little bit busy, but I think it's an important slide to show the evolution of the firm since its IPO. I remember when I joined as CEO back in 2016, there were a number of questions relative to something there on a variety of issues. I think, the last six years together with the team, this has nothing to do with, me but definitely the team that still continues in the company.

We were able to redefine scale, there were a number of questions, we are still talking about the sale of HSBC, which at that time we decided not to pursue, and we made a conscious decision that knowing that would be a lot harder, we would go for organic growth, and we moved the company from a loan portfolio, which is only one data point of 142 billion, as you can see, pretty much 500 billion, and this hasn't happened in an easy micro environment. We were able to do basically perform a formidable speed of growth, yet keeping the environment of control not just credit, which is an important one, but the entire environment of control in check. This was only possible, because we absolutely were obsessed among other things to move the company to different levels of efficiency. I think we're probably, if not yet, but most likely the leading company from a cost efficiency point of view in the industry. So with the cost income that I think it's remarkably strong, and this is just another reflection of the culture that the management team was able to implement over the last six years.

I think it is important that to also note that a number of trends which are today being spoken, we initiated the trajectory of the agro, invest in the agro industrial sector of Brazil a number of years ago, we have been involved in an ESG agenda for the last decade, I mean, this hasn't really happened for Santander in Brazil in the last couple of years. So this is something that I think it's going on for a number of years and decades. And we have not shied away from innovating, not only acquiring and we're going to talk about some of the subsidiaries, but also entering businesses, which traditionally Santander was necessarily pleasant, one being energy trading, the other one being the commodity desk, today we have one of the most thriving commodity desks in the financial market, pretty much not taking any directional risk, but assisting customers from a hedging strategy point of view.

So this is like -- it's a good picture of what has happened, if we move to the next slide, that's bringing more of a shareholder view, okay, if that is true, what has happened to new shareholder, and I think, you have seen from the IPO with at that time a relatively robust ROE when you would compare to the industry, we were still lagging behind, back in 2009 to basically ending the euro of the last 10 years as one of the leading firms in the financial industry from a profitability point of view. It's easy set and done, and it wasn't necessarily perceived six years ago that that was going to happen. We have been incredibly committed to our shareholders, as you can see the dividend yield. We have just announced another important dividend and we certainly posting this year a record dividend payment again.

And as you can see, this has happened on the back of underlying profitability. So, we continue to strengthen the balance sheet of the bank. We have up to now the highest

rating by Moody's when compared to any other financial institution in Brazil, and that's very much underpinned by a net profit that moved from BRL4.7 billion in 2009 to the number that we are printing today BRL16.3 billion with an ROE over 21%.

And if we continue on the next slide on earnings distribution to shareholders, this slide is an attempt to compare what has happened in terms of Santander Brasil, and its management commitment towards shareholders for the last couple of years. And as you can see 2010 was an atypical year due to the GAAP that was imposed by the regulators on dividends to the entire industry. So I think the slide speaks for itself, it doesn't really require further explanation.

On the next slide is more addressing, even the line trend of the business. We have been incredibly focused on true client-base growth, by true I mean, clients that are truly engaged in transacting with the bank far beyond the database or a point in a database. So we have reached 53.4 million total customers as of end of December '21. And when you see that only in the quarter, we have added almost 3 million new customers, in the last quarter 2.7 million to be exact. And from this number 52% are actually engaged with the bank in some sort of level, product and or service.

Just to give you an idea besides numbers in itself, digital transformation that I think we've done through our channels, we moved from 15.6 million, you don't see it here, but 15.6 million customers they were basically acquired through the digital channels to ending 18.3 million in December '21. We have put quite a bit of attention that Santander Brasil, and I think that's one of the uniqueness of the company has to be among other stresses on each distribution strength, so strengthening the distribution platform, creating a true omni-channel strategy, where the customer really decides to serve itself through the channel that it fits best its own style, it's something that I think we've been committed over the last couple of years and we are seeing the results both from a remote approach that we internally call FX channel or through directly through the digital channel, shortening cycle making sure that the experience and there's an enormous amount of rooms to improve is as easy and comfortable as possible to any customer of different extract of society.

So as you can see here, we see a very rapid growth on the customer side as already mentioned, but that has not happened without attention to quality, which the NPS is only one dimension. And again, a lot of work ahead of us, I mean, there's no accolade that we have reached the peak of the mountain, but where we were -- where we are, there has been significant improvement.

On the next slide, it's just another attempt to show that I think we are moving on the quality side. But I think here there is still a lot of work to be done. I mean, due to the multi product and multi-service nature of a platform of our signs, quality it's a permanent objective. So although, yes, it's true that the NPS is now around the 60 range, we have within Santander verticals, that have already exceeded 70. So the portfolios too shows a number of detractors from a quality point of view, and this is what I'm sure the new CEO Mario is going to pay attention, and the big opportunity, not the only one, but one of the biggest opportunities that we see is definitely around enterprises, small and mid-sized companies in Brazil that still need a level of customization and quality, and pragmatism

that from our perspective nor Santander, neither the market is completely capable of doing it.

On the Digital Side, Slide 9, where I show your Digital and Available is this attempt to show you here the omni-channel attempt that we are implementing as we speak. So, we are less concerned about branches or remote coverage of digital, those channels have to coexist in a way that from a customer perspective and experience is absolutely one. And more and more, this is going to be the reality. Customers still like to have the practicality of being able to see someone, if there is a need for example in Europe, it's very -- there's a very interesting political debate going on for those who are not digitally literate if you will, banking has become a real challenge for a number of people who have just not being part of a generation of being digital. This problem is less important for Brazil, because it's younger -- elder population all the rest, but physical assets, the combination of being able to be present if there is a need it's not any material asset that I think will continue to leverage as part of this distribution platform strategy.

So the customer acquisition through the digital channels, and I think that's a remarkable number on the slide has increased 185%, of course, percentages are always a function about how low your base was, but what it shows is just the thrust that is behind the growth that we are experiencing over the last couple of years. And a very important data point here is the fact that we've been incredibly transparent to actually even boast, what is our fully allocated cost on this channel, cost of serving of BRL26 a month, customers coming through the digital channel. So any -- so the attempt on making this customer to become more loyal, more engaged, transacting with the bank more than justifies profitability in the years to come, but that doesn't mean that we need to start from the BRL26 a month. I mean, the attempt, the continued sort of obsession of the company to remain (inaudible) from an efficiency point of view, we will continue. It's very important you to note that part of deficiency hasn't really just comes from cultural or we were one of the first companies in the financial industry with the exception of those who have started over the last couple of years to bring the company of this size to the cloud.

We have over 70% of all our systems in the cloud, which basically allowed Santander Brasil to actually collapse or be less dependent on legacy systems. And particularly, in our case, remember, we have been historically a result of a number of acquisitions. So, the cloud strategy has absolutely helped us to deliver the level of digital growth that I think you have seen today.

On the next slide, it was also another part of our strategy which was folks are paying too much attention to the number of branches as opposed to understand the demographics of branches. And one of the decisions that we made was to bring Santander to the interior of the country, and we have expanded, and we will continue to expand to cities that most of us are not necessarily familiar, but that work were -- future growth will continue to exist. Most of the cities have been served historically by public banks, more recently by co-ops and private banks in general with the exception of very few have never really taken a sort of a net nationwide view of Brazil. So and we have done it, we believe it's a plural society, we believe Brazil is fundamentally and not in industrial economy and the urban centers have an incredible importance with growth and the future of Brazil resides in its interior.

Last but not least, here's it's just an attempt to show you that the physical branch or the physical channel, the sports or the branches like more commonly known, we have launched what we call nothing more than -- what we call bank to go, which is the capacity of one of our employees to be able to serve the transit that goes throughout each and every day through our ATMs. So this concept 59% of this store, so you can actually go to a customer in ATM and serve that customer besides the need for cash withdrawal. So that customer can actually do transactions without necessarily having to go into the branch, sit down on a desk, and eventually spend 20 or more minutes when you don't have the time. We have today, approximately 15 million, one-five customers circulating per month through our physical infrastructure. So we believe there's quite a bit of opportunity for us to optimize sales, engagement and dialog with our customers.

And that is very much shown by the next slide, Slide 12, which you see the commercial activities of the company. In terms of cards, we had a record year in terms of invoicing, so reaching BRL306 billion, that's a 26% increase year-on-year. And again, in a year of a pandemic, so one can explain that some of that was absolutely linked to the fact that people have to use cards more often than before. But this is a record number. And it's a record number, because it also shows that we have seen a significant growth in terms of acquisitions of new customers.

So, our ambition in cards is to be able to get Santander Brasil to a market share of 20%, it's not guidance, but it's an internal ambition that drives us into that direction as we headed for debt, which was able to end the year with 16% market share coming from single digits market share in the years past. And the rest I think one of the things I like to note is the insurance piece on the upper side of the table, we have launched Santander outlook today one of the highest growth (inaudible) in the marketplace and that will continue to grow very fast, Angel can give you, if that becomes an interesting -- becomes a question to one of you more data around the growth of Santander outlook. So 2021, we have issued 6 million cards to a variety of customers of different segments under the brand FX as we have launched years ago.

Next one is the whole piece around the cultural transformation Santander was not even part of the great place to work. We ended 2021 as one of the best 10 companies to work for in the country. It's one data point. But it's a data point that shows that a lot of attention has been put in place, not only just to culture, but to the dynamic and the fabric of the organization. So we are -- I think, the numbers speak for themselves. I will not make comments, but very few companies can say that they have the level of ambition that we have for December 25 in terms of true leadership positions of different extracts of our society. So again, the slide speaks for itself.

With that, I pass the word to our CFO, who will get into now more specificity around the numbers. Thank you.

Angel Santodomingo Martell

Thank you, Sergio. Good morning to you all. I will now go into the -- results into the presentation, which we can detail a little bit more in our Q&A session.

So in the first slide, where you can see the full P&L account for the full year. As you may see, we delivered record net profit of BRL16.3 billion, which is a 7% increase. We closed 4Q '21 with a net profit of BRL3.9 billion, representing a 10% decrease relative to the 1Q and stable when compared to the same period last year. The quarterly decrease can be explained by a weakened market result and expenses with pressure from inflation, which we -- I'll explain further on in the next slides.

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Let me highlight the following figures here in this slide. On the revenue front NII rose by almost 9% in this year, even higher customer NII important to detail here on the customer NII. Fees increased by almost 14% over the year. Here again, the customer base growth and higher activity boosted different items, such as cards or insurance revenues.

And on the expense side, provisions grew 10% in 2021, which is consistent with our credit growth and mix. General expenses increased due to the collective bargaining agreement back in September. Inflation and foreign currency fluctuations, but remained clearly below inflation in the year. Efficiency ratio, as a consequence of this came in at 35%, improving by 90 basis points in 12 months, again, probably the best in the country. And return on equity remain at the 20% level in the 4Q and reach -- above 21% -- 21.2% for the full year.

The next slide illustrates the evolution of NII, highlighted by -- as I said customer NII which advanced almost 3%, 2.6% in the quarter, and almost 10% in the year in 2021, with product NII benefiting from positive volume dynamics and mix, despite a strong pressure and funding costs as spreads increased by 10 basis points those 10.3 to 10.4, reflecting a better mix and good price management. Market volatility during the year contributed to positive results on market NII also in this Q, so weakened market activity returning to a more normalized levels from an extraordinary 1Q.

Advancing to the next slide we can see that our loan portfolio grew almost 3% in the quarter and above 12% year-on-year to BRL462 billion, largely driven by retail, which continued to outperform with mortgage and credit card explaining part of the growth. It is important to note that almost 70% -- 67% of the individuals loan portfolio is collateralized. SME remained virtually stable in the quarter, growing 1%, 0.9%, but perform well in the year expanding 13%, thanks to the recovering demand. Given liquidity conditions of companies, since the beginning of the pandemic, corporate lending remained a stable in the quarter, and grew by 2.5% in the year.

On the funding side, our funding also had a positive performance. Financial bills increased quarterly targeting a diversified funding base, and continue to hover around their lowest level in history relative to total funding. At the end of the quarter, capital stood at comfortable levels. Our core equity Tier 1 reached 11.6%, decreasing 34 basis points to shareholders in the period, and our BIS ratio was almost 15% given recent capital operations.

Next slide, moving on to fees. We had another strong performance supported by customer base, growth and stronger loyalty. The best performance in the quarter in the year were credit cards and insurance. The latter following our traditional seasonality in 4Q. Current account fees decreased by only 4%, 3.9% during 2021. This lower growth

compared with previous years is basically explained by the peaks, this rapid payment system here in Brazil implementation.

Looking at expenses in the 4Q, we had the full impact of the collective bargaining agreement as I mentioned before, and also important to mention higher commercial activity, which puts pressure on variable costs. In the year, we saw expenses rise by 4%, which continues to be well below inflation. We have conducted and will continue to conduct through review of efficiency given our commitment to productivity.

As I mentioned in the beginning of my presentation, our efficiency ratio improved during the year to 35.3% at this level it may be possible as I said that we remain as we -- it has been for a long series now the best in the industry.

On the next slide, we can see how our asset quality has evolved, it remained at the well-control level in the quarter with an adequate coverage ratio reflecting our solid risk management. Full term delinquency remains healthy, while 90 day NPL increased by 30 basis points to 2.7% both and still under control and below pre-pandemic levels, as you may see in 4Q, '19. You can also see that our loan loss provisions remained with reasonable -- within reasonable levels consistent with a cost of risk and for the full year of 2.7%. This performance is a direct result of our diligent lending practices. As you probably have seen in our numbers, we released 1.2 billion of our generic provision, due to risk and modeling updates. Recovery continues to post a good performance that red part that you can see in the columns, reaching 800 million in the quarter driven by both the continuation of good management as well as the sale of written down portfolios. And in the year, the full year, recoveries grow almost 23% representing as I have mentioned you in previous quarters and the strong focus on that activity.

So, finalizing the main takeaways, six main areas, consistency, sustainable growth, and profitable given a long-term focus and top return on equity in the industry. Second, a robust and comprehensive financial platform resulted in an all-time high level of new customer acquisition, as Sergio mentioned. The stronger loyalty and transactionality will support our growth going forward. The macro environment will likely present some challenges, we acknowledge that, which we showed to be able to manage successfully in past cycles, and for example in 2015 or 2016. The availability and integration of channels will unlock greater business opportunities. And last but not least, our corporate culture deeply committed to growth, results and society.

So that's about the last part of the presentation. I think, we open the floor now for Q&A. Thank you.

Questions And Answers

Operator

(Question And Answer)

Thank you. We will now start the Q&A session for investors and the analysts. I will now pass the word to Mr. Gustavo Sechin. Please Mr. Sechin, you may proceed making the questions sent via webcast.

A - Gustavo Bahia Gama Sechin {BIO 19841299 <GO>}

Good morning, everyone. So let's just start our Q&A session. We have a couple of questions here. The first group of questions comes from Thiago Batista from UBS. Thank you, Thiago.

So can you comment your expectation of asset quality dynamics for 2022? Do you see NPL ratio of Santander Brazil during this credit cycle higher than the pre-COVID levels? Another question of Thiago related to the profitability. Is the bank ended 2021 with an ROE of 21% or 20% in the 4Q? It is feasible to maintain the ROE at 20% levels going forward? So Angel and Sergio.

A - Sergio Agapito Lires Rial {BIO 1925337 <GO>}

Can I -- Angel, I will take the first part. I think Thiago, it's good to hear. One of the things that I have experienced over the last couple of years, and rightly so, as a CEO is, the whole discussion around cost of credit and NPLs in Brazil. Remember back in '16 as we were growing, the suspicious level that we would definitely have significant increases in cost of credit fortunately did not happen and it wasn't by luck. We have, over the last couple of years, created a portfolio that is incredibly well collateralized, that's one point.

Second point, when you think, for example, on the vehicles market, the auto market, where we have expanded our consumer finance businesses over the last couple of years tripling its size and yet keeping the cost of credit in check. Now, one of the facts, for example, that perhaps the sell side is not necessarily observing is that the embedded equity today use vehicles. So if I would take a fair market value of Santander car finance portfolio and I would do a mark-to-market in terms of the embedded equity, just because the price of used cars have doubled, you have a loan to value that has improved incredibly. But your question is related to '22. So I have said in the past that there were a number of factors that would make me pause to think that the cost of credit for the system in Brazil will increase.

One has been definitely the pandemic and unemployment. One of the things we've seen is that the government sponsored programs that actually alleviated a big, big part and thankfully so, indebtedness level of a number of Brazilians. So a lot of finance has gone into people rightly so paying down debt. But now we have had new factors coming in, one is inflation; second, interest rate; third, open finance, which will create a level of competitiveness perhaps in terms of willingness of new players to grant credit that we haven't necessarily seen over the last couple of years. So we have taken cautionary measures in the third quarter of 2021 so that we could navigate '22 with absolutely acceptable levels.

Where do I see '22? I see '22 most likely coming back to levels of '19. Again, it's not guidance. It's just, I think, we're going to see structurally the cost of credit of 2020 and '21

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was in -- was very much helped by government-sponsored programs, as I mentioned, those were significant amounts of money injected in the economy. So we should be seeing levels closer to '18 and '19 pre-pandemic, nothing that we are concerned, but we are certainly attentive and paying attention to growth where you have to be more sensitive is on cards, absolutely under control, phenomenal good quality growth; vehicles, absolutely under control, and I mentioned the fact of the quality of the portfolio. So nothing today that would put me at an uneasy position. Angel?

A - Angel Santodomingo Martell

Yeah. I would, I mean, I mentioned in my speech. That collateral aspect that Sergio was mentioning, we are speaking of around 70%, 67% of the retail individual portfolio is collateralize and that collateralize of those guarantees as mentioned, are improving in price in several products. So that's one part.

Putting numbers to what Sergio said, this, I mean, Santander Brasil has been with a cost of risk in between 3.3, 3.2, 3.5, 3.6 in 2014, '15, '16, '17. So the structural kind of way of looking at these and probably that coming back that Sergio was mentioning, is that the 2.7% that you have seen as cost of risk is a leveling, which is clearly positively affected by the liquidity that we have been having and the performance and the programs that were mentioned. So I will say that, yes, we do expect deterioration of quality in a gradual manner, not something to really think as an explosion or something that will be intense, will be my early words.

The return on equity, Sergio, you want to address that or?

A - Sergio Agapito Lires Rial {BIO 1925337 <GO>}

I leave it up to the CFO because it's '22 and I will not be behind the wheel, so.

A - Angel Santodomingo Martell

Okay. The return on equity, as we have been mentioning to you in the past, I mean, we have been striving to deliver on return on equity in the levels that you see, the 20%, 21%, 22% and that is where the bank has been moving in the last some years now.

Obviously, you have seen also the payout remuneration and how we have been dealing with the capital in the last quarter. So if we put all that in the same kind of discussion, we would be waiting, I mean, I would be expecting a growth of risk weighted assets in the region of high-single digit, low-double, which means that to maintain that, to have that grow and to maintain those levels of capital of around 11%, 11.5% of core equity one, we will be targeting a payout of around 50%. So all that works in the same formula, which means trying to deliver similar profitabilities during the year. At the same time, that we maintain a nice remuneration to our shareholders.

A - Gustavo Bahia Gama Sechin {BIO 19841299 <GO>}

So our next question comes from Gustavo Schroden from the Bradesco BBI. On the increase in the NPLs, which lines were responsible for that? Cards, auto, et cetera? And

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also, did the bank sell loan portfolio in the quarter? If yes, what was the amount and what was the net impact in the quarter?

A - Sergio Agapito Lires Rial {BIO 1925337 <GO>}

I'll go here Angel.

A - Angel Santodomingo Martell

Okay.

A - Sergio Agapito Lires Rial {BIO 1925337 <GO>}

I think, we do sales from time to time, so nothing that I would necessarily characterize. So we did sell in the quarter. I think, if I remember correctly, Angel, we also sold back in the second quarter. So nothing, it's just part of what I would call business as usual. On the asset quality, I think I already addressed in the previous discussion from UBS. So we -- I think the credit card portfolio was the one that could have brought surprises and we're incredibly comfortable with our credit card portfolio because of the measures we have taken, cautionary measures we've taken right from the beginning of 2021. So nothing else I could add here.

A - Angel Santodomingo Martell

On the credit card side, just add in, 90%, remember that we have mentioned this in the past, 90% of our cards being sold are sold to current customers that we know about them, and it's a card to whatever relative they wanted to. So that's the risk control that Sergio is mentioning can be seen in that in that number.

A - Gustavo Bahia Gama Sechin {BIO 19841299 <GO>}

Okay. So our next question comes from Flavio Yoshida from Bank of America. Given that additional provision decreased 1.1 billion in the quarter and NPL trended up. Is there any change in the credit concession or risk policies? Should we expect a lower loan book growth or provisions growing at a faster pace than the loan book?

A - Sergio Agapito Lires Rial {BIO 1925337 <GO>}

Angel, you do.

A - Angel Santodomingo Martell

Yes, as I mentioned, we did use that generic provision that responds to modeling basically. Obviously, we already addressed all the NPLs in the provision discussion. So I'm not going to repeat it. But the fact is that we did both in IFRS and in BRGAAP, as we do, as bank, as we always do, the modeling of the need of our -- of generic provision of the overlay. And that lead us to a total amount remaining of around 1.82 billion. That's why we did that.

In terms of growth of portfolio and credit portfolio. What I would expect, this account re-growing in nominal terms in GDP somewhere around the 6%, 7%. I mean, with an inflation

of 5, 6 and some GDP real in terms of 0 to 1. That means that credit portfolios could grow in the high single, as I mentioned before, in risk-weighted assets. So high-single digit or even low double.

So this is our expected kind of performance for this year. And I already mentioned cost of risk should accompany that.

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A - Gustavo Bahia Gama Sechin {BIO 19841299 <GO>}

Thank you, Angel. Our next questions comes from Eduardo from BTG Pactual. As we saw in the third quarter, the other operating expense line went up on the fourth quarter due to higher credit cards and customer acquisition expense. These investments should reflecting in higher customer base and thus, a boost in the main revenue lines, correct? Should we expect these investments to continuing on the following quarter?

A - Sergio Agapito Lires Rial {BIO 1925337 <GO>}

Yeah. I will go there. I think Mario, as the new CEO, I think that's an important -- very much committed to growth and very much committed to profitable growth, and I think we've seen. In his own way, I mean, he's going to certainly be refining, improving, doing things that at that time we're not ready to. One is certainly continue to grow profitably the credit card business.

I do expect the revenue line in terms of growth to be still an important North Star for the new CEO. So the answer will be, yes. And that has to happen in an environment where costs will continue to be under control. Remember, I mean, we were able to post a significant, I would say, measure in terms of cost despite what we have seen in terms of employee increases on the back of the union agreement of almost to 11%, which already hit the numbers, third, fourth quarter last year and expenses have been pretty much under control in the neighborhood of 5%, 4% to 5%. So I think that commitment towards efficiency will still be there. But that will not be at the expense of good variable costs that are basically fuel good growth throughout.

And then I would like to also that we haven't really asked the question, but I think it's worth noting for example, under commissions, the significant increase that we have seen on capital markets and the position that the bank has been able to achieve on investment banking. So we have done a very large number of either IPOs or follow-ons. These were 28 last year and Santander has really moved up in the quality of transactions, like the one of Soma and Hering and -- which was very much led by the current CEO, Mario Leao. And all the transactions that we are still very much pursuing. So the whole capital market investment banking has also had a phenomenal performance last year, not necessarily seen because we're not necessarily disclosing.

And in terms of some of the subsidiaries, I would like to mention, Return, which is our asset securitization company. We have also made last year an important acquisition, which was a company called Lideranca Cobrancas, which is continued to focus on collection. One of the things that has -- that explains Santander good performance in terms of risk management is not just the model, it's not just the people, it is also what I would call state

of the art collection strategy. And last year, we strengthened that with the acquisition of Lideranca Cobrancas. Thank you.

A - Angel Santodomingo Martell

Into auto, right on the specific line of expenses that you mentioned, remember that we do have some seasonality. Normally the 4Q is more intense. You do have somebody will cost, like the one you said, the credit cards or the -- the banking correspondence. You do have some impact also from the currency, from the currency exchange rate. But it tends to be aligned which is more intense in the fourth Q, which is, I mean, it's also part of the profitable business. Okay.

A - Sergio Agapito Lires Rial {BIO 1925337 <GO>}

Yeah. That's true. There is another question Gustavo, maybe I help you hear from Mario from Bank of America, which is, good job in the last five years. So thank you, Mario for that. Recognized by the strong appreciation of the stock. That's true. Not enough yet, but that's true.

But the question is, what are the main challenges for the bank over the next five years? I mean, one of the very important questions is the whole succession process. I mean, Santander has created a succession that was noiseless. That was basically done with one of the best candidates that we have. I have absolutely looked and as a group as part of the governance together with the board, local board, and groups board, external candidates. And I'm completely convinced that Mario was the best choice. I -- he has been -- I hired him. He did not necessarily have a broader experience in retail of a portfolio of this size. Phenomenal quality banker, has spent a number of years in Citibank, Morgan Stanley and Goldman Sachs. You're going to have a chance to meet him in the first quarter. But more importantly, over the last couple of years, he basically took -- I gave him the most challenging job, which was the turnaround of the SME business. Not only he did that, but he also showed levels of leadership and desire to lead the company to a whole - to a new faith.

Again, he's being part of the executive committee over the last six years. So no big changes conceptually, but still big generational change. He is 47 years old, I'm 61. So he will see the world differently, he will certainly bring his own flavor to a number of aspects. But I'm absolutely convinced that not only succession was done in a very nice way. I mean, we didn't have anybody leaving the company abruptly, the entire management team remained because everyone believes in the story and everyone sees Santander as one of the most challenging from opportunities platforms in the country. I mean, if you look at the number of subsidiaries that we have opened from start, we launched the company of benefits, bank, which last year already had 0.5 million active cards and increasing over 330,000 merchants being accredit to be able to use bank card, all done from scratch. So there is a culture of being able to be builders. And so I think, succession is a good point to mark.

A - Gustavo Bahia Gama Sechin {BIO 19841299 <GO>}

Thank you, Sergio. So our next question comes from Tito from Goldman Sachs. The CET ratio is now below 12. What level do you feel comfortable operating with and what does that imply for dividends?

A - Angel Santodomingo Martell

I mentioned a little bit before the levels of core equity and this ratio linked to the lease weighted assets growth and payout et cetera. What we feel comfortable is a core equity of around in between, what I always said, it between 11% to 11.5%. We are going to be in that range the full year. We will probably be also well above the 14% in the BIS ratio between 14.5% and 15%. As you probably remember, we did an issuance of a Tier 2 subordinated debt in November. And with those ratios and to maintain those ratios, given what I mentioned before the return on equity, and given the risk weighted asset growth, probably payout will be in the region of 50%. But the main objective will be to maintain those levels of capital that I said.

A - Gustavo Bahia Gama Sechin {BIO 19841299 <GO>}

Thank you, Angel. So our next question also comes from Tito from Goldman. Do you expect further pressure on trading results from rising rates?

A - Angel Santodomingo Martell

Well, this is a good question. I did address a little bit throughout my speech, but probably it's worth mentioning. Also, the first thing is, as you saw in the fourth Q, the NII had a decline because the NII from markets had a decline, but had a decline from an extraordinary third Q and second Q. Putting numbers to these, I think the last Q was like 2.5 billion, 2.6 billion and we had and this was extraordinary, as I said, in third Q. Fourth Q, we went down back to a normalize or average number, which is in the region of 1.7, 1.8, 1.5 billion, which explains fully the decrease of NII because NII from clients had a strong performance.

Going forward and given the movements that we have seen in interest rates and in the delinquency, which as you know, is strongly steepened during this year and then with negative slope in the following years. I would expect that the NII from markets will have a weaker result during this year. We do have -- and a strong as treasury department, which is over performing and that should continue to during 2022. But the algo side that you always question in this part of the questions of the Q&A, will obviously perform in a weaker when we compared to 2021. So, I would expect an NII from markets weaker in '22 compared to '21. Yes.

A - Gustavo Bahia Gama Sechin {BIO 19841299 <GO>}

Thank you, Angel. So our next questions come from Pedro Leduc from Itau BBA. When negotiations, Santander has launched a nationwide (inaudible) program, proactively calling retail clients to renegotiate their credits. Can you discuss more on this program? Is that a rule for term for how much your provision for retail corporate renegotiation?

A - Sergio Agapito Lires Rial {BIO 1925337 <GO>}

FINAL

Yeah. I'll take that one. Pedro, thanks for the question. Thanks for your work. I've been following your work. So outstanding quality. So well done overall, not necessarily Santander. See, we, Mario and I, and the rest of the team, as we have -- as we were pretty much attentive that I think duration was going to happen was already happening '21 in terms of credit quality. We wanted to start the year ready. And we were very fortunate in doing a couple of things, not only the campaign, but also the marketing content behind it, which was the notion of, you have the launch of Big Broader Brasil, which is still very popular in our country. And we were creative to bring former winners of the same reality show, which despite the price that they had won, all of them had financial problems.

And we wanted to make a point that the fact that you earn money, it doesn't make that you get rid of financial problems. You need more than that. So we came with the program. This program has yielded in terms of new renegotiations over BRL700 million. We normally run, I'm not going to give you the exact number, but somewhere between BRL1.8 billion, BRL2.8 billion a month in terms of negotiations. So BRL700 million is a very significant number for one specific campaign. So it proved to be the right thing to do. And again, we are not yet completely -- we just don't know how the BRL400 the new government subsidized systems program is going to influence that repayment. So that's still a no-no. If we look at the last two years, it has been very positive and favorable, but we don't know how the consumers are going to behave especially on the back of the inflation that is eroding the capacity of people to buy more critical stuff like food, energy bills, and so forth.

Operator

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

Q - Marcelo Telles {BIO 3560829 <GO>}

Hi, good morning, and hello everyone. Sergio, I'd really like to start here just thanking you for all the work you've done at Santander and you -- in leading this incredible transformation, which I'm pretty sure will be part of the case studies of how to transform a bank. And I know it was a lot of hard work and I want to wish you all the best in your new role. So congratulations again. I -- my question is regarding the competitive environment. Of course, all these years is always like someone going concern right about potential new players potentially bringing down credit spreads and the latest data that we're looking, we're not seeing that. So if you could comment a little bit, how you're seeing competition and the impact on credit spreads going forward especially coming from the digital banks, how do you see Santander versus vis-a-vis the digital banks?

A - Sergio Agapito Lires Rial {BIO 1925337 <GO>}

Okay. So Marcelo, nice to hear you. I thought you were not -- you're not on the call. So it's really nice to hear you. And I think I appreciate the words, but I would also like to give back the words to you. You're probably one of the very few who truly believed that what happened could have happened. So thanks for believing.

FINAL

I would say, Marcelo, a couple of things. I think on the wholesale side, on the corporate investment banking side, I think you're going to see quite a bit of pressure on spreads. Because by definition there is going to -- there's not going to be a lot of demand for credit, I don't see it. I don't see significant investments happening in the private sector as of today, particularly, the large companies in Brazil who have done a phenomenal job in improving their balance sheet -- balance sheets balance sheets over the last couple of years. So I don't see companies borrowing necessarily. So corporate investment banking side, pressure on spread. On the retail side, consumer side, not necessarily. I don't see it. I think credit is going to remain scarce. The banks have done a phenomenal job during the pandemic. But if delinquency levels increase, there is going to be naturally in the system, a higher level of attention and care.

So I don't see the pressure on spreads on the consumer side necessarily. But I do see on companies in general, particularly those who have strengthened their balance sheet, I don't see credit demands from large corporates in the coming quarters. That's how we see.

Now, the digital banks, I think that's a broader discussion. I can't speak about them, but I think my reflection is, we are getting into a world that if indeed the fed increases rates by more than six times where people are already even discussing that seven times can still be possible. I think there will be important implications to the rest of the world as we all know, and it's not very clear all the different correlations to the financial system, in particular, to the value of liquidity. I think the value of liquidity will fundamentally change those who are a little bit older like me have seen that. And those who have been a little bit older than me remember the U.S and not in any way suggesting that, but with rates in double digits back in the 70s. So inflation seems to have arrived and that's just part of the knock-on effect of trillions of quantitative easing over the last two decades since 2008. So this is going on for a number of years and in -- some of the consequences are going to come and we're going to have to live with them for the coming years.

A - Gustavo Bahia Gama Sechin {BIO 19841299 <GO>}

Sergio, thank you. I would like to thank you everybody for the interest in our call. We have a couple of more questions. But due to the time, we would like to give you Sergio the words of your final remarks. Thank you.

A - Sergio Agapito Lires Rial {BIO 1925337 <GO>}

Thank you. First of all, let me correct, just to be accurate, Mario is 46 and not 47. So I still want to keep him as a friend. So he's 46 years old and I think I don't know if Mario who has joined us, but I think he probably join us now in the room. I'm not Sao Paulo today, I'm in London. So I would like to ask each and every one of you to give Mario the level of challenge, trust, doubt, confidence, total lack of confidence that you have given to me over the last couple of years and I'll be as close as Mario wants me to be as a Chairman. I'm in Santander. I will ensure that everything that I have learned I'll be putting for him to there and for him to make his own decision as the CEO. So Mario, maybe you want to say a few words and I'm sure you're going to meet them in the first quarter.

A - Mario Roberto Opice Leao {BIO 16135789 <GO>}

FINAL

Thank you very much, Sergio. I Just wanted to say, it will be a pleasure to get to know each one of you. We're going to have discussions with investors, discussions -- bilateral discussions, group discussions. Sergio has given me the opportunity to lead this great company and we will definitely continue the transformation he's began six years ago. We have a great team, which goes well beyond myself as it used to be with Sergio as well, and I'll be very happy to lead the executive committee, our 50,000 planes, as we call, towards a new cycle of continuous growth and continuous transformation as well. And it will be a pleasure to get to know each of you. Thank you very much.

Operator

Banco Santander Brasil conference call has come to an end. We thank you for your participation, and have a nice day.

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