Q2 2020 Earnings Call

Company Participants

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

Other Participants

- Daniel Wicks, Analyst
- Thiago Batista, Analyst

Presentation

Operator

Good morning, and thank you for waiting. Welcome to the conference call to discuss Banco Santander Brasil S.A. results. Present here Mr. Angel Santodomingo, Executive Vice President, Chief Financial Officer; and Mr. Andre Parisi, Head of Investor Relations.

All the participants will be in a listen-only mode during the presentation. After which, we'll begin the question-and-answer session, when further instructions will be provided. (Operator Instructions) The live webcast of this call is available at Banco Santander's Investor Relations website, at www.santander.com.br/ri, where the presentation is also available for download. We would like to inform that questions received to the webcast will have answering priority. (Operator Instructions) Each participants is entitled to ask one question. (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 has depend on circumstances that may or may not occur.

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

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

Andre Parisi {BIO 21511610 <GO>}

Good morning, everyone. It's my pleasure to welcome you to Santander Brasil's second quarter 2020 earnings conference call, which will be presented with more details by our CFO, Mr. Angel Santodomingo. Now, I turn it over to him.

Angel Santodomingo Martell

Thank you, Andre; and good morning, everyone. Thank you all for joining us this morning to discuss our second Q 2020 earnings results.

As has been in the past, I will start the presentation by talking about our strategy and key messages, followed by the results of both Santander Group and Santander Brasil highlights on the quarterly earnings. And, finally, I will conclude with final remarks.

So starting in slide 4. We start by showing the evolution of main figures of our balance sheet and P&L during the last both quarter and year. I think this is a key slide to understand how the business underlying performance is happening. We have been growing strongly both on the asset and the liability side during the last year, as you can see, 21% and 23%, respectively, gaining market share. But, at the same time, being highly efficient, given, as you may see, that we have achieved a historical minimum of 35.7% in the efficiency ratio, a strong improvement compared to last quarter and last year.

But an important part of this trend is, how did we grow on the asset side? As I have mentioned already and we, as a bank, have mentioned already one year ago, approximately, we have been selective in losing market share in those higher risky products like cards, overdraft or personal loans, as you may see in the slide, with significant decreases in market share, while, at the same time, we have grown strongly in collateralized loans. These type of loans have increased 21% year-on-year. You don't see that on the slide. This is a figure I'm giving you. Meaning that as of June 2020, they were 69% of total loans to individuals. This is a high number by itself, but also an important increase compared to last quarter, of more than 4 percentage points. So the main message here is that we are growing, yes, but selective, more in better risky products.

Now next slide, let me enter in the extraordinary provision rationale that we announced today. The first idea is that our business as usual, our BAU, continues improving from a risk perspective, as you may see in this slide. We were at 3.4% cost of risk last year. Last quarter, we were already improving to 3.2%, and we are presenting to you a BAU number, a business as usual number, excluding the extraordinary provision, of 3.1%.

Now in the next slide, with that in mind, and given the circumstances we have gone through as a country in the crisis, we offered our clients the opportunity to postpone their payments by only 60 days and after this period another round of 30 days. Now 83% of our customers that were adherent to that capacity, only 83% of them adhered to the initial 60 days offering. So just 17% of them going to 90 days. As of the end of June, we had a total portfolio of deferred loans amounting to those BRL50 billion that you see on the slide, which is equivalent to 13% of our total loan book. It is important to say, it is very important to underline that 52% of this portfolio is collateralized.

So in next slide, with all these data, and as I mentioned in first Q results, we now were able, with that data, to model future risk behavior of our loan portfolio, which derives in the extraordinary provision of BRL3.2 billion announced, significantly strengthening our balance sheet. This amount should be enough to navigate through the coming quarters. Based on the scenario we have today, we are not forecasting other rounds of additional provisions.

How did we arrive to this number? That's an important question. We run a stress test for both macroeconomic environment variables as well as our loan portfolio, resulting in the mentioned provision. For example, we increased by 55%, our probability of default estimated.

In the next slide, and as a summary, I will say that our business as usual continues to be controlled with both underlying cost of risk, as mentioned, and provisions on similar or even better levels compared with the past, including the extraordinary provisions made, you may see in the slide, where cost of risk stands.

Now returning to our business as usual. Once treated the extraordinary provisions, let me -- provisioning, let me underline several ideas. On the next slide, we see our ability to adapt to a changing environment over a sole period of time, enabling us to recover commercial activity quickly.

From the very beginning of this crisis, we took several immediate steps in between which, for example, KPIs were revisited and new ones were settled or our digital platform was a strength or even our portfolio management was further intensified. The result has been that we have been able to position our activity. For example, in the slide, measured by contracts sold in this period, already above 10% pre-COVID levels. Of course, none of that would have worked without our multichannel infrastructure.

Moving ahead to the next slide, to slide 10. We display the results of our customer-oriented strategy, sustainable client-based growth in the left with a good satisfaction level. We continue to expand our consumer base on either active local or dependent local or digital clients. And more importantly, our NPS, you remember it started by 40 some time ago, some years ago, now reached 61, our historical maximum level. Also, we maintained our leadership in IBOPE's satisfaction ranking, which we have held since 2018.

Addressing next slide with the acquiring business or to the acquiring business, the net has kept growing despite market conditions. Turnover, prepayment and active base have continued to grow at reasonable rates, even with the tough scenario we have lived for SMEs. Why is this happening? Our focus on cost per transaction, traditional focus, and our development of e-commerce, explain part of this success, along with diversifying our distribution channels. Considering this trend, we have put there our ambition, which is to achieve approximately 15% market share by the end of this year.

In the next slide, let me address an important idea. I have always spoken about expanding our ecosystem. On this slide, you have four examples of companies launched only during the last four quarters. They are really young, but that are already growing strongly and showing important and amazing P&L and balance sheet figures. You've got there Sim, which is our consumer credit platform for individuals, 100% digital; you have emDia, which is our renegotiation platform; BEN, which is the vouchers company; and Santander Auto, which is the digital insurance company that is totally transforming the car insurance sector in Brazil. All of them growing strongly and already with important figures, as you can see in the slide.

And continuing -- speaking about innovation in the next slide, these are another four examples of being close to the market, thus maintaining our good commercial activity. Mortgages, for example, today, we have the lowest yield in the market, 6.99%. We have a home equity growing strongly initiative. The Troca+Troco this is, given the crisis and given the car industry's situation, we offered to the market -- to the clients, the possibility of selling their car to a dealer, buying another one cheaper, and going home with some money. Or even Car Delivery, which is an online car delivery, that we have been offering throughout the crisis, so that clients and customers could buy online and have their car delivered to their -- directly to their home. We arrived to an agreement with almost 15 -- 15,000 car dealers in the country to do that.

On next slide, of course, that none of our achievements that I am commenting would have been possible without the most important pillar of our organization, our people. On this regard, diversity is among our top priorities, as I have commented in the past, as a way of being close to the society we deal with. Here, it's not just an inclusion trend. It has tangible and direct benefits. As we do that in different ways, ethnic, woman, supporting financially our employees at cetera, all of them with the same objective.

Now in the next slide, and at the end of the first part of this presentation, let me underscore some of our ESG initiatives in which we perform a leadership role in the country. Some examples I -- we put in the slide are the structuring of the first decarbonization credits. First loan operation with rates linked to environmental goals. First green bond insurance, our ESG-focused investment fund. And jointly, with other banks, with Itau and Bradesco, we announced a plan to promote sustainable development of the Amazon forest. These are just a few examples of our commitment now for more than 20 years with this extremely important point.

So moving to the second part of the presentation. This is just a brief summary of what the group presented today. I'm not going to elaborate too much, because the market already knows about that. 32% is the weight of Brazil in the first semester results of the group, with the South American region amounting to 45% of the profits.

So let me go into the result highlights in the first part of the presentation. So on slide 19, we present these key lines. On the revenue front, another quarter with good NII figures, both on a quarterly and annual basis, reflecting sound expansion of our loan portfolio and positive market NII results over the period.

Fees, on the other hand, had a weaker performance relative to recent quarters, reflecting the transactionality impacts of the COVID-19 pandemic.

On the expense side, recurring provisions are evolving at a lower pace than the loan portfolio. Additional, this quarter, we booked the already mentioned extraordinary provision. General expenses, which I will address more in detail in next slides, continue to rise below inflation, leading to further improvements in our efficiency ratio, which now stands at the mentioned historical minimum of 35.7%.

Overall, we ended the quarter with a net income of BRL2.1 billion net profit. Excluding the impact of the extraordinary provision, obviously, our profit would have improved slightly in comparison with a very good first Q 2020 quarter.

On slide 20, we show our NII evolution, which totaled BRL13.6 billion in this quarter, representing a growth of 13% in the year and 8% in the quarter. Customers NII increased by 2% with mixed figures from its components, while product NII performed well on the back of positive volume dynamics. Working capital, as expected, delivered weaker results due to the lower SELIC rate known by everybody. And, finally, NII from market activities posted another good quarter.

Next, we look into our loan portfolio. It achieved further growth in the quarter and reached BRL383 billion, expanding 21% on year-on-year and 1% on the quarter. The individual segment remained flat Q-on-Q, reflecting the change of mix I have been commented -- commenting with you in the past. But they still managed to achieve double-digit growth year-on-year, thanks to good growth coming from payroll and mortgage loans. Consumer finance recorded its first Q-on-Q reduction for a long time due to poor car sales industry in the quarter. Despite decelerating, we have gained market share, evidencing that our 100% digital platform continues to be in a strong solution. The highlight of the quarter was SME and corporate portfolios, which continue to deliver a strong evolution.

And, finally, I would like to stress again that we have been focused on growing in collateralized loans. And at the end of the second Q, we have 69% of our individuals loan book secured by collateral assets, which is a major advance compared to last year and last quarter, as mentioned in my introduction.

On slide 22, you can see how our funding has increased both in quarterly and annual terms. Most of its components performed well, except for the most expensive instrument, financial bills. This dynamic is in line with our strategy of optimizing our funding costs and volumes at levels that support our loan book growth. With the SELIC rate at an all-time low, we have witnessed a flight to quality, fast benefiting on balanced funding instruments given enormous strength of liquidity in this moment.

On the next slide, we see how fees performed in the quarter. Main reason here is transactionality. For example, with almost 1,000 branches closed in the worst moment in April, activity was hit across different products. Also, we have had this performance. The end of the quarter was much better than the start. And in some cases, close to first Q '20 monthly average, fast offering more encouraging prospects going forward.

On the next slide, we see Santander's asset quality, I already addressed part of it through our cost of credit at the first part of the presentation. Obviously, the ratios are impacted or affected by the different measures taken. But in any case, you may see how the situation is totally under control in terms of quality.

On this slide, I would like to underscore the 272 percentage level of coverage achieved. The additional provision, obviously, was key in facing duration.

Next, we see how our expenses have trended. Expenses in the quarter evolved below inflation, both Q-on-Q and year-on-year, leading our efficiency ratio to the best level ever since our IPO, pulled by excellent results both from administrative and personal expenses. Here, we aim to step up our focus on improving productivity as we see it as a crucial to protecting our profitability amid a challenging environment. Our drive to industrialize a non-industrialized sector is even stronger than before.

Moving to capital and liquidity in the next slide. We continue to have good numbers and, more importantly, we are absolutely comfortable to face the new scenario that we are going through. Our BIS ratio was 14.2 -- 14.4%, sorry, at the end of the quarter, with our core Tier 1 ratio standing at almost 12%, which is the level we have always commented we target to beat. Meanwhile, our funding reached a loan-to-deposit ratio of 89% at the end of June, again, summarizing a strong liquidity position.

In next slide, looking at our indicators. As stated before, focus on expenses remains one of our top priorities, which has led our efficiency ratio to its best level since our IPO. Recurrence was negatively influenced by weak figures already commented. And on profitability, business as usual, continues to represent -- to present healthy levels that go to low ratios when the extraordinary provisioning is included in the calculation, as you may see. So the underlying return on equity continues to be close to 22%, 21.9%, as you may see in the slide.

So trying to finalize my presentation. I would like to start my final remarks by strengthening our commitment to support our customers, employees and society, while delivering good profitability to our shareholders. We rely on a strong business model and a solid balance sheet which, combined, allow us to react quickly and adapt to the new reality.

Before moving to the Q&A session, I would like to share with you that we have just suspended our three-year guidance provided at our 2019 Investor Day, given the current lack of visibility -- short-term visibility. A new guidance should be provided next year, but our commitment to growth, risk control and efficiency continues even stronger, as you have seen, than before, with the objective of maintaining one of the best profitability levels in the Brazilian financial sector.

I would like to thank you for your attention, and now we are available to answer your questions.

Questions And Answers

A - Andre Parisi {BIO 21511610 <GO>}

First question is from Domingos Falavina, JP Morgan. Good morning. Could you please explain more the BRL2.5 billion in trading results. Is that sustainable? What exactly helped? FX, hedge accounting or loan book or interest rate?

A - Angel Santodomingo Martell

Well, I have always commented, no, on that part of the NII, that you have volatility depending on how our treasury prop account, prop activity performs during the quarter. And, obviously, the rest of the positioning with the yield curve. So this is a level, the BRL2.5 billion that we have achieved responds to that. It is higher than past quarters, but I wouldn't say that that volatility will go away. We will continue to see this is a continuous question on the results because it's a part of the P&L that tends to be volatile. As you know, we changed our criteria, our -- how the information was given last quarter to give you even more transparency on that part of the P&L, and we hope that it helps in that way. It responds to the different evolution of the different variables you mentioned.

A - Andre Parisi {BIO 21511610 <GO>}

Okay. Next question is from Thiago Batista, UBS. Can we assume the provisions will return to their normal level already in second half 2020? In the Slide 6, you mentioned that 83% of the clients defer the payment by only 60 days. So I imagine that a relevant part of them already start to pay it as most of this defer happened in April. Can you comment how those clients are performing?

A - Angel Santodomingo Martell

Well, there are several discussions here. First, as I mentioned, we have done this extraordinary provisioning in the second Q, once we have the facts, and we could apply those facts to future modeling, to the estimated behavior going forward. This is what we estimate today. I already mentioned that as of today, and with the visibility we have today, we do not expect additional extraordinary provision. That's the first idea.

Second idea, I remember that also through my presentation, we had another strong generic provisioning happening at the end of last year. So the balance sheet today shows a strong position. This is a different discussion. So how are we positioned with regards to quality of risk? You saw how our business as usual goals, how we control the capacity of entering into risky products and how we have performed in trying to avoid a strong growth when everything was okay 12 months ago in higher risky products like overdrafts, et cetera. So this is a discussion of a strength of balance sheet.

The second discussion is how is credit quality going to evolve. In general terms, forget about extraordinary provisioning, et cetera, et cetera. And I have commented in previous results, I mean I wouldn't be surprised if you see some trending upwards, given the amount of crisis that we are seeing in the different parts of the economy. Is this going to be an explosion? Is this going to be an exaggerated movement? I don't think so. But the trend could be, in that sense, is, I would say, possible. But depending on what you call normal, we will be around the levels you have seen in the past with the volatility in the performance that probably will come from the behavior of confidence, consumption, et cetera.

In terms of the clients that we have prorogated in the 83%. You're right, 83% of the clients that we just offered 60 days. Remember that we just offered 60 days. And then we renewed that with 30 days. 83% of the clients did perform or did accept those 60 days and no more than that. So the answer is yes, they are going into the normal treatment after those 60 days. So they are performing in that direction.

If you analyze the numbers, and this is something that someone recommends to me, at the end of the day, you have BRL50 billion, 17% of those BRL50 billion are still on that track of 90 days of holidays, which is, I don't know, BRL8 billion, BRL9 billion approximately. So we have provisioned a BRL3.2 billion today, plus BRL3.4 billion last December. So you can figure out the amount of provisioning that we have done compared to what the type of portfolio that we have underlying, with 50% or more than 50% of the portfolio with guarantees.

So I mean, my conclusion, I tend to be clear in my presentation, but I think that we are clearly making a more than comfortable provisioning.

A - Andre Parisi {BIO 21511610 <GO>}

Next question is from Carlos Gomez, HSBC. Congratulations for the results. So what were the factors that gave you such a good market income position in rates, others? Thank you.

A - Angel Santodomingo Martell

Well, I think I already addressed this question, no?

A - Andre Parisi {BIO 21511610 <GO>}

Next question is from Jorg Friedemann of Citi. How comfortable are you with the current level of renegotiation and coverage? Do you have a sensitivity scenario in terms of NPLs and cost of risk for the year?

A - Angel Santodomingo Martell

Well, we gave all the numbers and all the figures that we have seen so far. We are comfortable, because we have seen that clients are performing in terms of what we did. The response through our channels has been quite positive. You saw the NPS going up to 61%. That means that we are where we are supposed to be and that clients are responding to that.

And if you see, for example, the NPL formation, we are -- if I remember well, we are at 1.4% level. So it's quite stable compared to the 1.4% level of last quarter and 1.3%, I think it was previous or 1.2%. So in terms of how the underlying and how the credit quality is performing, I addressed this point. And I think that we feel that the portfolio will evolve in a correct direction. We don't see -- obviously, it will depend -- as I said, it will depend on how the economy performs, how -- if this is going to be a V, this is going to be a Nike way, this is going to be -- how the recovery is going to happen. But we feel as of today that the amounts of both provisioning and the way that the portfolio is performing is quite comfortable.

A - Andre Parisi {BIO 21511610 <GO>}

Next question is from Marcos Assumpcao with Itau BBA. Considering the positive cost performance in the quarter, what could we expect on further efficiency gains?

A - Angel Santodomingo Martell

Well, this is a good question, Marcos, because you know that we have been continuously focusing and sharing with you our way of looking at cost. Now I always -- we always mention this industrialized way of looking at the sector, where it does not happen to exist that view or normally doesn't happen to exist.

So we continue -- and we share this with you on our Investor Day last year. We continue to be more efficient in trying to analyze processes end-to-end, in trying to be quicker in time to market, in trying to be kind of leaner in the internal way of handling the thousands of processes that we have in treating technology, in treating our platforms, so that they are close to the front end, and they really perform and hand over the product that is supposed to be given at the right time. So this is not -- this hasn't started this quarter and it hasn't finalized this quarter.

So this is an ongoing process that you will continue to see. We think we have to be even cleaner or leaner in terms of costs because we are going into an industry that will have to be more efficient. And the ones that do not understand that will be losing either market share or capacity of growing in the future. So you are going to continue seeing this effort. But, again, I'm not giving you new news here.

A - Andre Parisi {BIO 21511610 <GO>}

Okay. One more question regarding the NII. So it's from Victor Schabbel, Bradesco. If NII with clients was a positive, would you be concerned about future trends once asset deteriorates, likely waiting on the bank's ability to have loans accrued? Would you see this as a potential headwind for NII or not really?

A - Angel Santodomingo Martell

Well, again, this goes back to the question on the quality. I mean, I already said about how we see performance in this part. We have a 272% coverage ratio, that's -- which is already happening today. Obviously, those clients that will not be paying, they will not be generating NII. This is what will happen. But, again, we see that controlled and in a positive trend. I'm not going to elaborate more because I think I already commented enough.

A - Andre Parisi {BIO 21511610 <GO>}

Okay. One more question. A follow-up on NPLs from Tito Labarta, Goldman Sachs. When do you expect NPLs to peak?

A - Angel Santodomingo Martell

Well, I would address more the NPLs given the current situation, the cost of risk. I said that the trend could be flattish or deteriorating during the next times. This leads directly to our question in terms of how the economy is going to perform. The current estimation, as you all know, is that we'll have a strong drop of GDP this year, especially focused on second Q and then recovering gradually towards third and fourth Q. But still a minus, whatever, 5%, 6% GDP deterioration in 2020 with a strong recovery. That's the V that I commented, with a strong recovery in 2021. If that happens, the normal trend is that you will see that deterioration during the next quarters and starting to improve during next year. But again, I mean, visibility here is we have all the same visibility about how economy is going to performing.

A - Andre Parisi {BIO 21511610 <GO>}

Okay. Next question is from Marcelo Telles, Credit Suisse. Loan growth has been somewhat resilient on the retail side. Do you see room for growth in the retail loan book going forward?

A - Angel Santodomingo Martell

Well, you are right. I mean, what we have seen, and this goes back to -- again last year that I was commenting with you. What we see is that, that difference that we were seeing in terms of retail growing, I don't know, 15%, 20%. Corporates and SMEs and large corporates is almost flattish. At some point, we see that reverting or closing the gap, which, okay, provoked also by the pandemic, but it's what we have started to see already before this crisis in first Q last year.

So what we see going forward is that, that leveling probably will continue. The strength from corporates and SMEs loan growth was intense. I commented that at the end of March and during April, and it has been smoothing throughout the quarter. So we should go to reasonable growth rates looking forward.

What means reasonable? I would say around nominal GDP as we go into positive trend with positive behavior on the corporate side. On retail, I mean, we have to go through the different products. This is not a general comment. I mean, you have products like car financing in which you will totally depend on how the sector and the economy performs. Obviously, all the consumer-related figures.

And on the other hand, we have both credit products and non-credit products that are performing or will start to perform possibly. I'm speaking of payrolls, I'm speaking of mortgages, I'm speaking of these type of products. And outside the loan products, you have other ones like capitalization and special product here. Consorcio, another special product that we have here in Brazil that you already know, as they are both saving products in another way. They are already today growing strongly.

I mean capitalization is growing 173% compared to pre-COVID levels. Consultants is growing 38% compared to pre-COVID level. So I mean, you have those products that I still show that there is good activity, performance and capacity from our clients to both safe and spend or leverage for future spending or investments. But I would differentiate, Marcelo, throughout the different products because if not, it's a difficult conversation.

A - Andre Parisi {BIO 21511610 <GO>}

Okay. Next question is from Jogana Asa [ph], Bank of America. Can you please explain why the effective tax rate was lower quarter-on-quarter, even with the increase in the social contribution tax?

Here, Jogana, what happened is that we had an IOC declared during the quarter, as you saw and with the statutory results, the impact was higher than previous quarters. Since we reported statutory results at BRL2.1 billion in net profit. So basically, the answer is that. If you need anything else, we can touch bases later, okay?

So I believe -- okay. We have one other new question, it's from Eduardo Nishio, Banco [ph] Plural. What are the key assumptions used in the stress test scenario to reach the one-off provisions of BRL3.2 billion in NPL level, GDP, et cetera?

A - Angel Santodomingo Martell

Well, I mean, we do not disclose all -- every single detail as you can imagine, but I can share with you some of them. Obviously, all the macro variables were strongly stressed in the line I mentioned before. So you have from GDP disposable income leverage, ForEx, I mean all the variables you can imagine that affect the leverage of the different clients.

And additionally to that, I think it's important to underline that the probability of default, we increased that by more than 50%. In fact, it is 55%. So increasing probability default by 55%, you can imagine the amount of stress that you put on a portfolio, a portfolio gain that has all the guarantees and the behavior that I said to you before. So we feel confident that, that amount of stressing done to facts, to already portfolios that we know are already there, that they happened and that we already are not offering more prorogated capacities are more than enough, okay? Thank you for the question.

A - Andre Parisi {BIO 21511610 <GO>}

Okay. Now we're going to answer questions by phone calls.

Operator

The Q&A session via telephone is open now. One question per participant only. Our first question comes from Thiago Batista, UBS.

Q - Thiago Batista {BIO 15398695 <GO>}

Hi, guys. Thanks for the opportunity. I have one follow-up about the credit renegotiation. We saw an increase of about BRL4 billion Q-over-Q. Can you comment if this was concentrated in any specific type of loans, if this was corporate? Or if you can give a little bit more color on this credit renegotiation? And the second question on the fees.

A - Angel Santodomingo Martell

Sorry, can you repeat? Because we got a little bit hung up. Can you repeat the question? I'm sorry.

Q - Thiago Batista {BIO 15398695 <GO>}

Okay.

A - Angel Santodomingo Martell

Hello?

Q - Thiago Batista {BIO 15398695 <GO>}

Hello?

A - Angel Santodomingo Martell

Hello. Now I can hear you. Sorry, we didn't hear you. Now we do hear you. Please repeat it. I'm sorry.

Q - Thiago Batista {BIO 15398695 <GO>}

Okay, okay. Sorry. If you can comment about your credit renegotiation. We saw an increase of BRL4 billion Q-over-Q, more or less. If this renegotiation was concentrated in any specific segment or if this was large corporate? So if you can give a little bit of more colors -- color on this credit renegotiation?

And second one, on fees, especially the fees of credit card, if you had saw in June and also in the first weeks of July, the season on car resuming today at the normal pace?

A - Angel Santodomingo Martell

Okay. Let me try to address both things. On the renegotiation, I have already tried to give a lot of light. What I would say is that we have like around 50%, 60% of that renegotiated portfolio being retail, retail individuals, I mean, less than 10% wholesale in terms of the breakdown, and the rest are minor percentages. I mean, let me give you an example.

Credit cards, for example, less than 3%. Yes, so I mean, if you go to the risky parts, which is the ones that we reduced market share, and we were not growing, obviously, they have very small percentages, or the same -- similar one to personal loans and the pure, clean personal loans are, again, I don't know, 2%, 3%, 4%, no more than that. So we are concentrating and we've been concentrated in the non-risk part of it.

On the fee side, you have seen -- I mean, you have to add a little bit of -- or some transactionality. I mentioned that in April, we had a month in which transactionality suffered, and credit cards is an obvious one. I mean, yes, they increased a lot on the digital platforms, on e-commerce, on marketplaces, yes. But obviously, they do not offset the amount of activity that the country has in normal situations. And you have regulatory impacts that you already know. I mean, we have had those impacts in this part of the business, they have been impacting. So the transactionality component is important because it generally affects, by a vast majority, the performance you have seen in fees.

It is also true that, that activity is coming to normal. As for example, activity in credit cards today, we are around 15% lower than we were -- we used to be in pre-COVID levels. Financing to cars, we are 19%, 18%, 15% depending on the day and improving, all of them improving. Mortgages, we are in between 10-plus percent lower than pre-COVID, improving. So the trend is positive, again, below pre-COVID levels. But I mean, we are, to some extent, positive in terms of how things are evolving. Again, with a big disclaimer on how the economy will perform, et cetera, that I have already mentioned.

Operator

Our next question comes from Daniel Wicks [ph], Gorde [ph].

Q - Daniel Wicks

Thank you. My question is about the investment abroad. I mean we're seeing some movements from other banks to reduce some of the investment abroad. And regarding the change of the regulation at the end of the year, what is the -- Santander's strategy? If I'm not mistaken, and I didn't see any reduction in the second quarter. So if you can discuss a little bit about your strategy regarding this? Thank you.

A - Angel Santodomingo Martell

Yes. Thank you, Daniel. The answer is no, we haven't -- as you know, all the -- all what is around Alco [ph] and capital activity, we tend to be stable, and we don't tend to be too trading-oriented in those things. So in terms of our capital approve that we have allocated for our loan portfolios in dollars, we have not moved in this quarter. Obviously, we will have to take a decision towards year-end because, as you know, the new regulation is being approved as we speak. So yes, we will have to adapt to the regulations, as we have always done.

Operator

(Operator Instructions) Thank you. The Q&A session is now over, and I wish to hand over to Mr. Angel Santodomingo for his closing remarks.

A - Angel Santodomingo Martell

No. Thank you so much. I think that we have three main messages for you today. First one is that our BAU, our business as usual, as you see, continue to go in that recurrency and strong capacity in terms of how it is performing, and we're trying to show to you the different details and with transparency, both on the asset liability, risk and costs.

Secondly, I try to explain that extraordinary provisioning and once, we said in first Q we didn't have the facts. Now we do have the facts, and we have tried to present them to you so that you could understand how and why we are doing this. And third, the message on the guidance that we will come back to you. But obviously, in the current situation, we don't think it makes sense to continue trying to hold that.

Also, we continue to be quite insistent in the four things I mentioned: growth, cost, risk and profitability being one of the best, if not the best, in the Brazilian sector -- the financial sector.

Thank you so much, and looking forward to speaking with you in the next quarter or occasion. Thank you.

Operator

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