Q4 2012 Earnings Call

Company Participants

- Carlos Galan, CFO
- Marcial Portela, CEO
- Oscar Rodriguez Herrero, CRO

Other Participants

- Carlos Macedo, Analyst
- Jorg Friedemann, Analyst
- Marcelo Telles, Analyst
- Philip Finch, Analyst
- Regina Sanchez, Analyst
- Saul Martinez, Analyst

Presentation

Operator

Good morning. And thank you for waiting. Welcome to the conference call to discuss Banco Santander Brasil SA's results of the Fourth Quarter of 2012. Present here are Mr. Marcial Portela, CEO. And Mr. Carlos Galan, Vice President, Executive Officer, CFO, Oscar Rodriguez Herrero, Vice President, Executive Officer, CRO. And Mr. Luiz Felipe Taunay, Head of Investor Relations. The live webcast of this call is available at Banco Santander's Investor Relations site, www.santander.com.br/ri, where the presentation is available for download.

All our participants will be on listen-only mode during the presentation, after which we will begin the question and answer session, when further instructions will be provided. (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, operating and financial projection. 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 include 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. And may cause actual results to substantially differ from those in the forward-looking statements.

We would now like to pass the word to Mr. Marcial Portela, CEO. Mr. Marcial Portela, you may proceed.

Marcial Portela {BIO 1477907 <GO>}

Good afternoon. And thanks to all of you who are listening to this conference call.

The table of contents for today will discuss a key view about the macroeconomic scenario, the highlights regarding 2012, the main drivers of the results. And our commercial activities. And at the end, we will also give you a flavor about 2013.

Regarding the macroeconomic outlook, I would like to highlight four ideas. After a weak 2012, the market consensus shows a stronger GDP growth, reaching 3.1% in 2013. And 3.7% in 2014. Related to inflation, the estimate is that in 2013, the present year, it will reach 5.7% and 5.5% in 2014.

In terms of interest rates, the market expects they will remain flat, ending 2013 at 7.25% and an increase of 100 basis points in 2014. And finally, the estimate of exchange rate is a small depreciation of the real, ending this year at BRL2.07 per dollar.

Going through the highlights of 2012 compared to the previous year, I would like to share the following points with you.

The Bank made a BRL6.3 billion net profit, which means a 5% decline. Our loan portfolio grew 8%. Total revenues showed a positive trend, up 15%, with net interest income growing at 15%. Costs, without amortization and depreciation, are under control. And grew 8%.

On the second half of 2012, the gross allowance for loan losses started to decline. Finally, our balance sheet strength, the Bank feels comfortable with the coverage ratio. And remains strong in terms of capital.

In 2012, we had a net profit of BRL6.329 billion. In the quarter, it increased 6%. Compared to 2011, net profit decreased BRL332 million, equivalent to a drop of 5%. In terms of profit per share, it reached BRL1.67 per unit in 2012.

Looking now at the P&L, I would like to highlight the following points. The first is that the year showed an increase in revenues. Net interest income plus fee and commission income decreased 2% in the quarter. And grew 14.5% in 12 months.

The second point is that there is a higher cost of credit, with the allowance for loan losses growing 40% in 12 months. And decreasing 4% in the quarter.

The third point is the expense control. Expenses, not including depreciation and amortization, grew 8% in 12 months. Expenses including depreciation and amortization presented an increase of 9.6% in 12 months, which is compatible with the Bank's commercial expansion. And investment that took place in previous years.

And the fourth point is an improvement on the quarter by 18% on the other operating income or expense, reflection of our efforts and initiatives to normalize the contingency levels, especially for labor claims.

Net interest income reached BRL7.8 billion in the quarter, the last quarter, decreasing 4% quarter on quarter. Revenues from loans declined 3% in the quarter, due to the reduction in the average spread, which was driven by changes in the portfolio mix of individual products. The main component of the mix effect in the quarter is related to the reduction of the interest-bearing revolving portfolio.

Despite the fact that such evolution follows a seasonal pattern shown in the last years, it's worth mentioning that in 2012, this effect was more notable. The Others line fell 6% in the quarter, mainly due to lower revenues from treasury operations.

Regarding the entire year, net interest income amounted BRL32.4 billion in 2012, due to a higher contribution of credit revenue, which increased BRL3.4 billion. It is worth emphasizing the resilience of the credit spread, growing 10 basis points in the entire 2012, compared to the previous year.

Observing the loan portfolio, total portfolio grew 2% in the quarter. And 8% in 12 months. There is a good diversification between segments. The main driver of credit growth was the SME segment, which grew 5% in the quarter and 14% in the year. The new attendance model, with the same relationship manager for the individual and the business accounts. And the Conta Integrada, integrated accounts, supported both -- supported the growth of this segment. The integrated account combines banking and acquiring services, which is part of our strategy. This strategy will increase the delinquency, due to a higher share of SMEs in our Corporate portfolio.

Let me pass on to the next page, to comment the delinquency trends, based on the indicators most widely followed by the market.

NPLs over 90 days increased 35 basis points in the Fourth Quarter, closing at 5.5%. The trend differs by segment. Most of the increase, two-thirds of it, actually, is concentrated on the Corporate portfolio. The mix by segment of the Corporate portfolio is evolving into a higher weight of the SME segment, as a result of the successful implementation of our strategy to gain share in this segment, leveraged by products like Acquiring, that are key elements of Santander Brasil strategy. As a result, the Corporate NPLs of Santander, that was significantly lower than the market, has been converging. And is now in line with the market ratio.

The Fourth Quarter was also impacted by lower levels of renegotiations that resulted in a lower growth, BRL175 million in the quarter, its volume substantially lower than the previous quarters.

The Individuals portfolio continues to normalize in line with the market. And decelerated its over 90 growth in the quarter, to 10 basis points, reaching 7.8%. The (other side), NPLs from 15 to 90 days continues to show a positive trend, closing 2012 at 4.9%. The improvement is stronger in the Individuals portfolio, closing at 6.8%. This is 33 basis points better than the Third Quarter. And 64 basis points lower than one year ago.

The Corporate portfolio stabilized in the Fourth Quarter at 3.1%, still 50 basis points up from a year ago. The new origination shows a better performance, as a result of the adjustments implemented in the credit policies that allowed to continue to grow the Retail franchise with quality.

To conclude, I would say that our expected normalization is starting with a delay, a result from slower macroeconomic growth. And change in the mix of our Corporate portfolio, while the signs in the origination continue to support an improvement in the present year, starting at the end of the Second Quarter, again related to the economy performing as expected.

Allowance for loan losses net of recoveries were BRL3.1 billion. And continue to normalize with a decrease in the quarter of 4.1%, making the cost of credit of the quarter the lower of the year at 5.2%. The reduction was supported by an increase in the recovery of written off loans, that reached BRL505 million in the quarter. On an annual basis, allowance for loan losses closed 2012 at BRL13 billion, with an increase of 40% over 2011. The cost of credit closed at 5.8%, increasing 110 basis points in 12 months.

Fees and commission income in 2012 reached BRL10 billion, an increase of 4% in the quarter and 12% in 12 months. The annual growth is mainly due to cards, which increased 38%. Collection services also presented a significant increase, about 14% year on year.

As part of our strategy of cost efficiency, expenses, not including depreciation and amortization, increased 4% in the quarter and 8% year on year against 2011. Together with depreciation and amortization, total expenses increased 3% in three months. And 9.6% over 2011.

The efficiency ratio reached 44% in 2012, an improvement of 2.5percentage points in the year. The recurrence ratio reached 63.4% in 2012, an increase of 1.4percentage points over the previous year. Considering the profitability indicators, return on assets reached 1.5% in 2012, an increase of 10 basis points in the quarter and decrease of 20 basis points in 12 months.

Return on equity reached 12.4% in 2012, an increase of 0.5percentage points against the Third Quarter of 2012. And a decrease of 1.9percentage points in 12 months.

Assets totaled BRL434 billion, an increase of 1% in the quarter. And 7% in 12 months. Equity amounted to BRL52.9 billion. That represents a growth of 2% over September. And 8%

over December 2011.

The coverage ratio closed at 126%. That continues to be a comfortable level. Our BIS ratio remains high, over 20%, with 19% representing Tier I and 1.5% Tier II.

Funding from clients, on balance, amounted to close to BRL200 billion, an increase of 3% in three months. And 11% against December 2011. Total funding, on balance, improved more than BRL37 billion in 12 months. And considering assets under management, total funding reached BRL352.5 billion, an increase of 4% in the quarter and 14% in 12 months.

It is important to bear in mind that the relation between loan portfolio and funding from customers on balance remains well balanced, reaching 106% ratio.

Finally, I would like to highlight the following points of 2012, compared to 2011. The first is that the Bank made a net profit of BRL6.3 billion in 2012, a (3% decrease of 5%).

In terms of commercial activity volume, the loan portfolio grew 8%, or BRL15 billion. And total funding increased 14%, or BRL43.6 billion.

The third point is about the favorable performance of our total revenues, which grew 15%, improving our efficiency ratio by 2.5percentage points. Another factor that influenced positively our efficiency ratio was cost control, which, without depreciation and amortization, increased 8% in 12 months.

Moreover, gross allowance for loan losses started to decline, growing 36% in the second half of 2012 versus the first semester of 2011. And 24% in the second half 2012, against the second half of the previous year.

NPLs over 90 days increased (0.4) percentage points in the quarter. And 1percentage point in 12 months.

Finally, our solid balance sheet represented a BIS ratio of 20.8%. And a coverage ratio of 126%, both at comfortable levels.

Therefore, we emphasize commercial growth, higher revenues, improvement on spreads, (inaudible) cost controls, increasing allowance for loan losses. We are constructing robust retail banking in Brazil, based on our strategy designed two years ago.

The year 2012 was below our expectations, below GDP growth in the country, 1 digit credit growth, half of what we expected, with more NPLs. And credit costs growing more than we expected. Consequently, we presented a net profit lower than the previous year, than we expected.

We are convinced that despite 2012, our path is correct. And we foresee a 2013 much better, when we will continue to work in our strategy. First, we are going to grow in

Individuals with less churn and more linkage. The surveys we had at the end of 2012 show already very positive signs.

Second, controlled growth of SMEs, leveraged by our Acquiring business strategy. We are going to pay attention to the evolution of the cycle. And with the actual outlook, we will keep our pace.

Our expectation for 2013 is that the economic recovery will accelerate the growth of credit portfolio, which will increase the share of collateralized products, thus reducing the credit costs. However, there will be also a compression in NIIs due to change of mix, resulting in lower spreads.

We plan to offset these impacts, growing revenues with fees and controlling costs that will grow below inflation. This is our view and our expectation for this year, for the present year.

Thank you, very much for your attention. And now we are open to your questions.

Questions And Answers

Operator

Thank you. We will now start the Q&A session for investors and analysts. (Operator Instructions) Our first question comes from Carlos Macedo from Goldman Sachs. Please go ahead.

Q - Carlos Macedo {BIO 15158925 <GO>}

Hey. Good morning, everyone. Thank you for the opportunity to ask questions. A couple of them, both on the guidance side. If you can give us some color, first, on margins, since it's such a relevant topic, your margin -- your credit spreads or credit yields in the quarter declined by 60 basis points. And you're talking going into next year that we should see a further compression, mostly on mix.

Was this quarter most driven by mix, or was there outside factors like lower pricing and pressure from the government, that we've heard? What should we expect in terms of margins, specifically, going to next year? Should we continue to see a compression. And if so, by what magnitude?

The second question is related to the guidance on asset quality. You did mention that credit costs would be lower going forward, the NPL ratio increased 40 basis points this quarter, 5.5%. What is the view for -- and the NPL ratio, going forward. And also, on the credit cost side, you did see a significant decline in your NPL coverage. I understand you feel it's at a comfortable level. What should we work with when forecasting for your NPL coverage going forward as well? Thanks.

A - Marcial Portela {BIO 1477907 <GO>}

Thank you, Carlos. I am passing your question over to Carlos Galan, our CFO. He will make a more precise answer.

A - Carlos Galan {BIO 3055356 <GO>}

Okay, Carlos, well, regarding margins, I'd like to highlight two ideas. The first one is, you were asking us about the 4Q. The 4Q, I'd like to clarify to everyone that basically, the impact that we had in our (inaudible) margin contribution, basically BRL200 million compared to the previous quarter, was based on mix, which means mix. Basically, overdraft and credit card products. And the volume in the credit cards, the volume that we -- our clients use us to finance their balances, both overdrafts and credit cards, as most important products. They reduce the, in relative terms, their presence or their volumes in the total portfolio.

And given the fact that these two products, they have higher spreads than the rest, they drive the total portfolio by 60 basis points. Basically, in order to give you an idea, 80% of the 60 basis point decline in the 4Q, I explain for this reason. The other 20 basis points, as our CEO was mentioning, was explained by lower prices or lower spreads. So, once again, I would like to highlight that the 4Q was impacted by the mix, rather than by prices by itself.

Regarding -- as a second idea, regarding 2013, the idea is that more or less, the -- our expectation. And I would like to correct you, that this is not a guidance. This is our outlook, as our expectation. And that we think that we are going to run our credit spreads in line or in the neighborhood of the 4Q levels.

Having said that, I mean, with seasonal patterns, this is not lineal. And when you compare, for instance, the spread that we had in 2012, that is more or less 12.1, 12.2, we are talking about 60 (basis, actually) for the entire year, 60 basis point declining. This is more or less what we expect.

So basically, what the idea is, that we more or less achieve our natural run rate in average terms for the 2013 period.

Of course, we will be impacted by the mix in -- how the mix is evolving, as our CEO was mentioning. But in general terms, this is the view that we have for the entire period.

Q - Carlos Macedo {BIO 15158925 <GO>}

Okay. And thank you for that. And for asset quality?

A - Oscar Rodriguez Herrero {BIO 16628851 <GO>}

Yes, Carlos, thank you very much for your question. In terms of the credit quality, as Marcial pointed out in his presentation, we prefer to talk differently by segments. And as you have seen in the presentation, Individuals in the Fourth Quarter, in terms of NPLs, where we saw acceleration in terms of the ratio, that we -- together with the fact that the early delinquency, it has been going down for the Third Quarter in a row. We are expecting to see a normalization and room for improvement in the first semester of 2013.

On the Corporate portfolio, as we said, there is a natural trend, justified by the evolution of the mix towards SMEs. And also has been negatively impacted by the renegotiations in the last quarter, as again, Marcial pointed out. The growth of the renegotiation were significantly lower than the average of the last quarters. And if you adjust by that, it would have a -- it will explain a significant -- the significant part of the jump observed in the last quarter.

This is is important, because this renegotiation, when done, it will maintain the level of provisions on it, which helps to understand why the increase in the NPLs have not had an impact in terms of an allowance for credit quality.

Going forward, in the Corporate, we are expecting a normalization in the first half, that will show room for improvement in the second half of 2013, always subject to the economy performing as expected, because this is a portfolio that is very much impacted by the growth in the GDP.

Q - Carlos Macedo {BIO 15158925 <GO>}

Perfect. Just so that I understand. So given that what you explained with respect to the renegotiations, not having -- not changing the provisions on the loans, we should work with a coverage ratio -- you know, generally around where it is now, going forward, right? Is that the expectation that you have for the year?

A - Oscar Rodriguez Herrero {BIO 16628851 <GO>}

Yes. I think it's basically around what it is, adjusted by the impact that it had, the renegotiations on it, which means that if we -- as we are working on, we improve the renegotiations in the next few quarters, we should go back to the levels around 130%.

Q - Carlos Macedo {BIO 15158925 <GO>}

Okay, perfect. Thank you, very much.

Operator

The next question comes from Philip Finch of UBS. Please go ahead.

Q - Philip Finch {BIO 3252809 <GO>}

Good afternoon, gentlemen. Thank you for hosting the call and taking our questions. Two question from me, please. The first is on your loan growth expectations, given that you clearly are shifting towards SMEs. So if you can give us any color on what to expect in light of improving macroeconomic outlook. And also, related to that, the potential change in your loan mix that we could expect to evolve this year.

And secondly, it's regarding the fees, where you had decent growth last year. And clearly, you've highlighted on the call earlier that you would look to grow this to help compensate, maybe, any pressure on the spread front. Could you explain what sort of expectations you have for 2013. And what could be the key drivers for that? Thank you.

A - Marcial Portela {BIO 1477907 <GO>}

Thank you, Philip. Related to the expectations we have for the GDP growth for this present year, if it should be -- our position is that the GDP could grow something around 3% in the year. It will probably take a little longer, initially expected. So that the First Quarter is difficult to see robust growth. But I think as far as the year as going through the second and Third Quarter, we will see this 3% GDP growth, quite easily.

Related to credit growth in the system, we believe that the nominal growth could be about 9%. So reasonable leverage should increase the credit and the credit portfolios to something like 15%. This would be similar to what was the end of the year 2012. But the mix, in terms of sectors of the industry, as far as we see today, it should be different. So that private-owned banks should grow at something like 15%, 16%. Our competitors are giving this view also to the market. And the public, or state-owned banks, they should normalize probably the rate of growth. And not repeating such an aggressive growth as in 2012.

So altogether, we expect to grow, in terms of loan portfolio, something similar to the market. This would be around this 15%. And if the GDP grows and the credit market conditions allow, we would like to grow a little bit over the market -- could be at 16%, 17%, not much more than that.

Related to the mix in our loan portfolio, certainly we are not going to change substantially the mix in one year. But our action, that it's very much connected with our strategy, will work in the following direction.

Related to Corporate, we are going to grow the weight of the SMEs in the Corporate portfolio. So, this we are going to do very carefully. But we believe we have the tools and the instruments to achieve a good performance in that growth of the SMEs segment.

And in terms of Individuals, what we are going to see is a mix of credit, where collateralized credit will represent a more substantial part than it represents today. So, real estate or mortgages will grow faster, as actually it has been happening in the last two years, faster than consumer loans.

And altogether, after, let us say, three, four years, will represent a real change in the mix. So that the credit risk we will have in our loan portfolio will be lower. Certainly, less risk in the portfolio will represent also less spread. And so the net interest income will be according to that mix of the credit portfolio.

I do not know whether you had any other question, Philip.

Q - Philip Finch {BIO 3252809 <GO>}

That's very helpful, thank you. And the second question was to -- with your fee growth expectations. And what could be the drivers for that. Thank you.

A - Marcial Portela {BIO 1477907 <GO>}

Yes. The fee growth we expect for 2013 will be something double digit, something similar to the previous year, to 2012. So around this 12%, 14%, more or less in that direction. And a very important driver will continue to be all our Acquiring strategy, close to the -- very close to the SMEs. And some services like cash management, etc., where we are starting a very good performance in 2012.

Q - Philip Finch {BIO 3252809 <GO>}

Thank you, very much indeed. It was very helpful.

A - Marcial Portela {BIO 1477907 <GO>}

Thank you.

Operator

The next question comes from Marcelo Telles of Credit Suisse. Please go ahead.

Q - Marcelo Telles {BIO 3560829 <GO>}

Hi. Good afternoon, gentlemen. Thanks for the opportunity. A few questions, the first one on your asset quality. I know you already approached that issue. But that was indeed a very significant increase in NPL, in new NPLs, above 40% in the quarter. As you signaled, most likely -- I mean, this was -- there was a large part of renegotiations in the quarter. So they might have (inaudible) increased NPLs.

But my question to you is, what is the level of additional provisions that you would expect? I know -- you know, when you renegotiate a credit, you don't change the provision you had at the time. But then, some way, it could delay the amount of provisions you needed to make, especially if you're doing more segments that have that collateral, like vehicle loans, for instance. You might have to provision more in the future.

So what can we expect in terms of provisioning growth in 2013? Should we expect growth, or you're still expecting a decline, how that dynamic, to renegotiate a credit, would play out?

And my second question is regarding the operating expenses. We saw a good contributor on the positive side was much lower contingency provisions. And there was a meaningful decline in the line. I was wondering, what has changed? I mean, did you change the methodology for expected losses in terms of labor or civil lawsuits. And what's the (expected) sustainable level for the future? Thank you.

A - Marcial Portela {BIO 1477907 <GO>}

Thank you, Marcelo, for your question. Oscar is going to answer the first part. And I'm going to take over the two final questions.

A - Oscar Rodriguez Herrero {BIO 16628851 <GO>}

Marcelo, thank you. If I understood correctly your question, you say -- what you're asking is whether the NPLs, the increase in the NPLs in the Fourth Quarter should represent an early warning for increases in terms of the allowances in the next year.

I -- well, for us, as I tried to explain in my first answer, there was a -- the NPLs were significantly impacted by the lower growth in the renegotiations. If you look at the -- what the increase in all the book, including the renegotiations, that increase, which did not happen. And therefore, I -- the NPL growth do not represent an early sign to an increase in allowances in the future, which also impacted the level of coverage.

The second question is, okay, what to expect. We don't make our guidance in terms of allowances in the future. But our expectation, or the way we are looking at this, at the allowances, is that we could see some normalization or stabilization around the levels of the Fourth Quarter in the next two quarters around it. And room for improvement in the second half of the year. Thank you.

Q - Marcelo Telles {BIO 3560829 <GO>}

Thank you, Oscar.

A - Marcial Portela {BIO 1477907 <GO>}

So, Marcelo, relating to operating expenses, the level we see for 2013 is something like, say, half the inflation. So, they could grow this year between 3% and 4%, something like that.

But I want to make always a differentiation, because one thing is, the investments we are making to grow the Bank in 2013, similar to the one we made in 2012, 2011, will be a big amount of money that we will see in the depreciation and amortization in the years to come.

What is exactly the expenses, personnel expenses or general expenses, is what I see growing at about half the inflation rate of this year, something similar. And probably we are going to enter a new efficiency pattern. So that with the same amount of costs, basically, we should be able, through our vision of our business models, implemented in the years before, we should be able, with flat costs, or almost flat costs, we should be able to generate amounts of business much bigger in the years to come. We are working it hard, because we see it as a very important leverage for the P&L account for the next years.

Related to contingency provisions for litigations, etc., I think this -- we have put a focus on it, because as you know, this country produces an enormous amount of labor and civil litigations against institutions. So, we have put in place some, we call it, (factories). So that we negotiate very early with people who want to litigate. So that we reduce very much the costs of this litigation. And certainly, we shouldn't expect a reduction like the Fourth Quarter, the one we had in the Fourth Quarter, for this year. But they will grow at a very reasonable path during 2013.

I do not know whether this was the answer, the right answer for your question.

Q - Marcelo Telles {BIO 3560829 <GO>}

Yes. Thank you. So much, Marcial. Thanks for your time. I appreciate it.

Operator

The next question comes from Saul Martinez of JPMorgan. Please go ahead.

Q - Saul Martinez {BIO 5811266 <GO>}

Hi. Good afternoon, guys. I have two questions. One is a very, very general, high level question. And then I have a very, very specific question.

The general high level question is related to your view on 2013. Marcial, you mentioned some amount of optimism about 2013. You said 2013 would be a much better year than 2012. That was conditioned on the expectation that GDP will grow. And economic growth will recover.

Having said that, GDP continues to disappoint. There have been a number of downwards revisions for quite a long time now. If the economic activity does not recover. And we have another disappointing year in terms of economic growth, say, 1%, 2% type of growth, will 2013 still be a better year than 2012? And I have a follow up question as well.

A - Marcial Portela {BIO 1477907 <GO>}

Thank you, Saul. My answer will be -- my answer is that in both scenarios, the year 2013 will be better than 2012. First -- well, I'm not too -- by nature, I'm not such an optimistic person. But my view. And I'm talking every day to firm leaders, entrepreneurs and CEOs of companies, I see a very determined wish to invest this year and to take advantage of the year 2013. And of some projects the country has that are very important.

So they -- this makes me comfortable to expect a GDP growth better than in 2012. And that could reach that amount of 3%, about 3%. I think optimistic would be a GDP growth above 3%. But 2.5% to 3% could be something really quite realistic.

In case this normal scenario, this base scenario changes to a GDP growth of 1%, I think banks, the industry in general. And specifically Santander, we are better ready to cope with such a scenario than we were when a year and a half ago, we were expecting the year 2012 very positive. And with credit growth of close to 20%, or something similar. So we are taking already some decisions in terms of credit admission. And also in terms of costs, etc., that will allow us to react much quicker than we reacted at the end of 2011, beginning of 2012.

Thank you, Saul.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. Great. That's helpful. I hope you're right about the economic activity. Second question is much more specific.

I guess I don't understand the increase in the 60 basis points for commercial credit. I understand the mix shift. The mix shift can explain gradual increases in NPLs. But a 60 basis point sequential increase, it seems to me to be very difficult to be explained by a mix shift. Can you comment -- in any given quarter. Can you comment on what specifically drove that -- the 60 basis point increase? Where are you seeing underlying deterioration on the commercial side?

A - Marcial Portela {BIO 1477907 <GO>}

Thank you, Saul, for the question. Oscar is going to answer you.

A - Oscar Rodriguez Herrero {BIO 16628851 <GO>}

The increase in the commercial side, as we said, it's a combined effect. And I agree that a mix effect does not happen over a quarter. But if you look at the trend, the economy deceleration started in the last quarter of 2011. And we've been growing the SMEs portfolio, maintaining the NPL over 90 basically stable over the last three quarters, around 2.6%, 2.7%.

So, there is a -- from the mix side, there is part of the impact in the Fourth Quarter, definitely. And in addition, if you look at the renegotiations number, the impact that we estimate that we had in the NPLs, it's in the house of the BRL800 million to BRL1 million of portfolio that was not renegotiated in the quarter. And this explains another significant part of the 60 basis points that you are asking about.

And obviously, in the quarter, as the economy continue to a -- show slower growth than was expected, it was also a negative impact in terms of the delinquency in the commercial portfolio. We were expecting to have a lower delinquency level of the -- on the commercial side, on the SME side. It's still very much under control. But our expectation was that it should have been lower throughout the year, (technical difficulty) the Fourth Quarter.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. Just to be clear, because I must have misunderstood the earlier comments, the renegotiations had a roughly BRL800 million to BRL1 billion impact on NPLs in the commercial portfolio in the quarter. Is that correct?

A - Oscar Rodriguez Herrero {BIO 16628851 <GO>}

That is -- that impact is in the total portfolio. Most of it is in the commercial side.

Q - Saul Martinez {BIO 5811266 <GO>}

Most of it is in the -- okay, great. Thank you, very much. That's very helpful.

Operator

The next question comes from Regina Sanchez of Itau. Please go ahead.

Q - Regina Sanchez {BIO 16404038 <GO>}

Yes, hi, everybody. I also have two questions. The first one is if you could give more color on this transaction of the investment of (Santander Holding) on Santander Brasil's insurance brokerage business, this restructuring. And if you could clarify -- I mean, exactly (inaudible) gain of BRL148 million was a one-time gain.

And the second one is, also, if you could detail more what was the restructuring expense in the amount of BRL242 million, mentioned in the release, which was used to partially offset the BRL335 million gains related to the real estate (inaudible). Thank you.

A - Carlos Galan {BIO 3055356 <GO>}

Thank you, Regina. Carlos is speaking. Well, related to the first one, there is -- well, this is part of the -- I would say that business as usual, restructuring, corporate restructuring movement that we do. And in concrete, regarding the movement that you ask me -- or, you ask, basically, this is an increase in an equity in the capital. It was not a sale, it was an increase in the equity.

Basically, we incorporated -- well, bear in mind, even though this is the brokerage insurance that mostly (audit) premiums, or the fees received for the sales, insurance sales, they are booked in the Bank. So basically, this company is now -- or, this booking center is now incorporating all the extra activities, such as, for instance, in order to give you an idea there, the company TecBan that's with the (inaudible) that we have with other banks to -- with the ATMs, for instance, (inaudible), which is our website where we can sell or finance cars, or for instance, our activity in private equity.

So, basically, what we have been doing -- what we have done is to restructuring in this company, all these -- all their business. And this is just for corporate perspectives. Why? Because we would like to expand our business in several areas. And for legal purposes, it was much better to restructure it in this way.

And the second one is, yes, well, basically, all the -- as our CEO was mentioning, part of the Bank, or part of the strategy for 2013, it's to face a lower cost. Part of this cost level is the (inaudible) (renovation) in the headquarters. And part of the (severance) payment that was affected in the 4Q was offset with the real estate fund that we created.

So basically, if you see the volume is (240 for the severance). And (340) positive for the real estate fund, that we saw in the 4Q, more or less offset there. Other -- I mean, less important issues that basically amounted to (this BRL150 million). So basically, what I'm saying is, non-recurring or extraordinary events, they were offset positives with negatives. So basically, this is the structure that we made in the 4Q.

Q - Regina Sanchez {BIO 16404038 <GO>}

Okay, perfect. Just to follow up on the first answer, I agree with you, it was not a sale, it was an increase in the equity. But it -- but now, Santander Brasil has only 60% of this company. And Santander Holding has 39.35%. Is that correct?

A - Carlos Galan {BIO 3055356 <GO>}

That's correct.

Q - Regina Sanchez {BIO 16404038 <GO>}

Okay. Thank you, very much.

Operator

The next question comes from Jorg Friedemann of Bank of America. Please go ahead.

Q - Jorg Friedemann {BIO 15405752 <GO>}

Thank you, very much. I just would like to start with a follow up on the Corporate restructuring related to the capital increase of (inaudible). And the brokerage insurance company.

Would it -- can you explain to me what is the expected growth that you have in the insurance brokerage company? And what kind of revenues, if any, you could expect, also, from TecBan, in which I know Santander Brasil has increased its stake. And then, I will follow up with a second question. Thank you.

A - Marcial Portela {BIO 1477907 <GO>}

Thank you, Jorg. Carlos is going to answer your first question.

A - Carlos Galan {BIO 3055356 <GO>}

Well, once again, I mean all the -- focusing our insurance business, if you remember, after the balance sheet that we made in 2011 with Zurich, it's basically -- and you can see them all day, these services and fees received from our insurance activity in the Bank.

Once again, I would like to clarify that this -- I mean, even though this is -- the insurance broker company, the (inaudible) or the results that they book, it's very, very small. It's a very small company. And the idea here is to use as a booking center, in order to expand all their initiatives, all their (inaudible). One of them, you were mentioning, TecBan, one possibility that we have is that to increase our participation in TecBan. That's why we needed to expand our equity in this company in order to face this reality.

But it's the same with other business that are embedded in this company. For instance, I was mentioning, for instance, the private equity, or for instance, their Web models activity.

So it's not just the brokerage insurance which explains the activity here. And most -- I would say that the most important expansion may be it's coming from all their business, which are inside this company. And that for corporate reasons was again better for us to restructure it in this company in the 4Q.

Q - Jorg Friedemann {BIO 15405752 <GO>}

Okay, just a follow up in that part, Carlos, if you allow me. I understand that TecBan is a cost center. And not a revenue center. So is that correct? And if it is a cost center, could it be related -- you have this, I know, higher stake allocated in Brazil. Could it be related in any way to a bigger movement? I remember that some time ago, you were discussing about potential initiatives to -- I know, involving to sharing ATMs with other banks, or if it is only related to your internal goals and opportunities? Thank you.

A - Carlos Galan {BIO 3055356 <GO>}

Well, both. There are -- with regarding TecBan, just it's because maybe we can -- we would like to be an active player in the restructuring that we can face in this company. But on the other hand, it's not just for TecBan. We would like to increase our activity in the project, which is what I was mentioning. So that's why -- I mean, in both sides, it's -- that's the focus, that we restructured the company in the 4Q.

Q - Jorg Friedemann {BIO 15405752 <GO>}

Okay, thank you. And the second question, I'd like to ask Oscar if he could clarify to me the evolution of provisions under IFRS, I think showed a slightly different trend than the one mentioned by Mr. Portela in, I know, his presentation.

So, IFRS provisions are growing. And though we do know that IFRS model is based on expected losses, could in any way this growth signalizes some additional deterioration ahead, at least in the first half of 2013, that could contribute to provisions under Brazilian GAAP, to advance? Thank you.

A - Marcial Portela {BIO 1477907 <GO>}

Oscar, please. It's your turn.

A - Oscar Rodriguez Herrero {BIO 16628851 <GO>}

Thank you, very much, Jorg. The allowance for -- the allowances for NPLs in IFRS in the Fourth Quarter were impacted by a change in the methodology of calculation -- not of calculation, of the way we account for transactions that were already written off. And are renegotiated.

Those transactions, under the Brazilian regulation, need to be reactivated into the balance sheet, whereas now, in the Fourth Quarter, applying a more conservative view, in the IFRS. And in line with other practices outside of Brazil, we are only considering them on a cash basis.

What this change in the methodology resulted in an increase in writing offs of around BRL700 million. But together with the -- that -- together with an increase in the writing offs of the quarter, explain that difference in allowance.

Why do we explain it? Because in IFRS, when the transaction is written off, it is not (just) 100% provision. Whereas in Brazilian GAAP, the regulation states that the transaction needs to be six months, 100% provision, to be written off. Therefore, that to say, explanation, it is a technical question. And by no means represents any guidance or representation of future additional provisions in the (technical difficulty).

I don't know if that made clear -- is that clear, you -- or that -- that was -- is that clear to your question about it?

Q - Jorg Friedemann {BIO 15405752 <GO>}

I think so. So just to confirm this understanding, if this -- I know, accounting change, in the way you look into the writeoffs, this might imply increasing writeoffs under Brazilian GAAP. So you're not expecting Brazilian GAAP, future provisions, to go up, is that correct?

A - Oscar Rodriguez Herrero {BIO 16628851 <GO>}

It is correct, because the way we -- I mean, the writing offs in Brazilian GAAP, it is regulated. And it states that after six months of a transaction being 100% provisioned, I need to write off that credit. So there is no change in that, yes.

Q - Jorg Friedemann {BIO 15405752 <GO>}

Perfect. Thank you.

A - Oscar Rodriguez Herrero {BIO 16628851 <GO>}

You're welcome.

A - Marcial Portela {BIO 1477907 <GO>}

Thank you.

Operator

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

A - Marcial Portela {BIO 1477907 <GO>}

So, thank you very much for your attention. As I mentioned before, we are building up this future with strong commercial activity. We are investing. We are sticking to our strategy. And in spite of the difficulties of the year 2012, we see the Bank much better prepared to cope with the year 2013, that initially, as we did today, we have today, we expect could represent a much positive year for the industry. And specifically for us.

Thank you, very much for your attention.

Operator

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