Q1 2020 Earnings Call

Company Participants

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

Other Participants

- Domingos Falavina, Analyst
- Thiago Batista, Analyst
- Thomas Peredo, Analyst

Presentation

Operator

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

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

I will now pass the word to Mr. 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 first quarter '20 earnings conference call, which will be presented with more details by our CFO, Mr. Angel Santodomingo.

Now, I turn it over to Mr Angel.

Angel Santodomingo Martell

Good morning, everyone. Thank you, Andre, and welcome to this quarterly results, Santander Brasil's results presentation. Thank you for joining this morning, and I really hope that you are all doing well.

Well, given the current scenario, what I will try to do is I will comment on the results of the first Q 2020 and as well as the key recent developments to face these new environment. So, basically what I will go through is I will talk about our strategy, followed by a quick look at Santander Group's results, which were presented today. And then I will go into the details of the quarterly results, finalizing with the concluding remarks.

So moving on to Slide 4, the next four slides, what I will do is speak about our four main stakeholders. This is customers people, community or society and shareholders. So starting with customers. As you probably have seen during the last weeks, we remain fully committed to serving our clients. We acknowledge that in a situation like the one we are going through today and during these weeks, we banks are an important pillar of society as a whole. And we have adopted our operation in different ways to meet these needs of our customers.

We have been announcing a lot of them, but in addition to these measures announced jointly with other bankers -- other banks, Brazilian banks, we have increased credit card limits for all performing clients. And for example, we are also promoting home equity credit lines. This is a good product to help homeowners to weather the current crisis, but with very limited penetration in Brazil. Current situation also has accelerated our digital evolution. We have shortened some of our projects, and have already introduced a broader range of digital products. This is outweighing a one-way path, as we see it looking forward.

Our clients feedback on our stance has been excellent and quite positive I would say so far, and it has been reflected in our NPS, which as you can see, stands at 58 points in the quarter, finalizing and starting this quarter, this second quarter already at 60 and over points. So it's clearly increasing throughout the crisis.

On next slide, moving to employees and people, we saw how we manage to change our operation considerably in Santos full time. The high employee engagement levels I have shown to you in previous quarters have been key in increasing productivity, even while working from home. We have done a few different things, including, for example, bringing leadership teams closer to all employees or making medical personnel available to our staff, or advancing the 13th month salary. This is the extraordinary salary that is paid here in Brazil, which will be paid in a couple of days at the end of April. In our view, this is a clear indication that the banks is really committed to that engagement coming from our employees or our people.

Moving to Slide 6, this is how we have moved around society or around the country, a special edition of our already traditional Amigo de Valor, which is an annual donation campaign, has been launched, with funds dedicated exclusively to five hospital projects to fight for the COVID19. Unlike regular revisions [ph], each real raised was matched by the bank.

In between other initiatives, together with the Itau and Bradesco, all three banks donated 5 million rapid test kits and 15 million face masks, opened a credit line to breathing machines -- sorry, manufacturers. And by offering greater support to all healthcare workers, we have developed a specific solutions to their needs with dedicated service and partnership or insurance products.

Finally, on the next slide, I present a first summary of our results.

Our loan portfolio expanded by more than 20% year-on-year, with 11% year-on-year net income growth. Return on equity for the period yielded 22.3%, again reaching a historic high. With the new scenario we are going through, digital is, as you can imagine, growing even faster than before, while obviously physical continues to lose steam. Digital transactions already represented 82% of our total, with e-commerce gaining momentum rapidly.

Moving to Santander Group results, I will not stop too much here as they have already been published earlier today. Net profit before extraordinary items or provisions that have been allocated reached EUR1.9 billion and Santander Brasil accounted, as is already the case in previous quarter for 29% of this group's earnings, so in the relative importance of the subsidiary.

Now, moving to Slide 11, which is where we start to present the key lines of our results. On the revenue front, NII rose 12% year-on-year, reflecting the volume that you will see afterwards on our loan portfolio, while on the Q-o-Q comparison, it remained digitally flat due to the new rule on overdrafts. These displayed a smoother performance relative to recent quarters or even negative due to our competitive scenario in the -- basically in the acquiring industry and a tough comparison base for card issuing activity. Also, please bear in mind that we do have some seasonality that I will comment further on.

On the expense side, provisions grew in line or a little bit below portfolio and general expenses grew in line, also with inflation over the period, remaining below revenue growth, so further improving our efficiency ratio, which as you can see on the right of the slide. It has stood at a new minimum or maximum depending how you want to consider the positive news of 37%. So as mentioned altogether, we closed with a net income of almost BRL3.9 billion or BRL3.85 billion with a return on equity above 22%, as mentioned before.

On Slide 12, we saw our NII evolution, which totaled almost BRL13 billion in first Q, increasing 12% in the year and being flat in the quarter. As you know, we have presented new NII breakdown. So customers' NII decreased by 0.5% Q-on-Q, so almost so flat, basically affected by the new regulatory framework on overdraft and lower spreads, reflecting the reversal in the loan portfolio mix shift trend seen in recent quarter, which means that the corporate book has grown faster than individuals. NII from market activities increased 6% Q-on-Q, are reflecting the lower interest rates in the quarter and as has happened in the past with volatility when compared to previous moments.

Next slide, we look into our loan portfolio and here we can -- we can see some of the points I reflected before. The loan portfolio reached BRL378 billion at the end of March, with an increase year-on-year of 22%. Main point here is that we are growing in the four segments in the both Q-on-Q and year-on-year.

Individual segment continued to perform positively in the year, supported by the ongoing performance from payroll and personal loans, smoothing that growth a little bit on a Q-on-Q basis. Consumer finance also maintained a good evolution with a similar trend when compared to the retail segment. Then the SME and portfolio -- and corporate portfolios delivered also a sound quarter. For the first time since 2015, the corporate book experienced a higher year-on-year growth on individuals. This is the change of mix that I was referring to before. If you remember during the last several quarters already, if not the last one, we have seen these trends happening and gaining momentum as quarters have gone by and we see it also happening now.

And finally, I will also -- this is a new piece of information that we wanted to put for you here in the -- in this slide, which is the collateralized percentage of our portfolio. We have 64% of the individual portfolio, which is collateralized, so high-quality in that sense, with a strong increase on a year-on-year and Q-on-Q. So, it is clear that we have more exposure to the individuals but highly collateralized and with good growth in that collateralization.

Moving to funding on Slide 14. You can see that it has increased strongly quarterly and year-on-year basis. All its components performed well, except for, as been in the past, for the most expensive instrument, letras financeiras or 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 COVID-19 outbreak, we have witnessed a clear flight to quality movement, fast benefiting own balance funding instruments. So -- and we are not seeing a reversal as we speak in April of this trend.

On the next slide, we see how fees have evolved and here we start to see some impacts from the COVID-19 crisis. The pandemic triggered market volatility and less transactionality, impacting with different reasons, asset management, cars insurance, for example. The Q-on-Q performance is also attributed to seasonability, specifically on the insurance.

Remember, that we always have a fourth quarter within a strong insurance performance and when we compare first Q with 4Q, we always have that negative evolution. In the year-on-year comparison, the 1% reduction was mainly derived from a weak performance in cards, reflecting the competitive landscape in the acquiring business and issuer activity. Please remember also on top of what I said in terms of competitiveness, that in first Q of last year of 2019, we booked an additional revenue as a result of specific commercial agreement.

Okay. So moving to quality on the next slide. In general terms, I would say that it remains healthy with different movements that we can comment on later. We think that credit quality will deteriorate in a limited way but will deteriorate in the near future. Going into these numbers we presented, after reaching the best level since our IPO in 4Q '19, the short-term NPL has returned to a more normalized position, if we compare historically.

The individual segment deteriorated from a very low previous quarter, I think it's a historic level, with the corporate segment reaching 1.6%, which this is really the best performance ever. Within a stable over 90 days NPL, the corporate segment also deteriorated from a very low previous quarter. Coverage ratio at 194% remains at similar levels to the past. In any case, we believe that we are prepared to face these newer scenarios, which is in front of us, with a healthy asset quality position and accurate risk modeling.

On Slide 17, you can see how loan loss provisions have performed in the quarter. I will make some comments here additional to the quality I mentioned before. In the year-on-year comparison, it grew 19%, in line with the pace of loan book growth, as I mentioned before, so flat in the year-on-year comparison in terms of cost of risk and increasing from the low 3%, 20 basis points in the quarter.

So next in productivity in costs, we can see the trend in the period. Total expenses remained in line with inflation over the period, growing 4% year-on-year and leading our efficiency ratio to the best level ever. The highlight here was personnel expenses. If you allow me to underline some of the performance, which showed quite a controlled evolution, reflecting this focus I had been setting with you on cost control.

Here, we aim to set up our focus on improving our productivity. So, this is a continuous effort, and we are focusing even more there as we see it key to protecting our profitability in this challenging environment. Our drive to industrialize a non-industrialized sector continues even more strong or stronger.

Moving on to capital and liquidity, we continue to have, I would say, good numbers. And I think more importantly, that if they're good or not, we feel comfortable to face this new scenario in which we are going into. Our total ratio, capital ratio reached almost 14%, 13.8%, with the core equity Tier 1 at 11.4%, while our funding, this -- the loan-to-deposit ratio stood at 98% at the end of March.

So with this, let me go through the final remarks, which is then last two slides, which is our view in terms of making the right decisions. Last year, if you remember, I started to comment with you last September, I think it was in the results of third Q, that we were clearly making new decisions in terms of facing a difficult 2020. Obviously, we didn't know the crisis we are facing, the type of crisis that we are facing. But we already started to make changes that I have been sharing with you in the last quarters.

On top of that we have been, as I mentioned, helping our clients, if you analyze total origination in SMEs since March '19, this has amounted to almost BRL70 billion and always with our risk -- with our way of looking at risk from a conservative way, I would say. And we have commented the potential indebtedness of some of the parts of the economy of some segments, specifically in cards, et cetera, in which we were already saying publicly that we were putting attention to it.

The flight to quality that I mentioned before has proven to be right, as we have built a stronger investment brand and this is working, clearly working on a daily basis, which all these provokes that our focus in productivity and profitability is even more important or stronger. Obviously, we are finalizing a quarter in which the crisis has started to be perceived, we will have a tougher second quarter. But I think this is not new to anybody, specifically on the physical channel. I think we can comment a little bit more about this on the Q&A. But I can share with you some of our experiences here.

We see cost of credit that may increase in the short term, but again, the type of modeling risk procedures and experience, for example, some that we sold in the last crisis, I think, give us some capacity of reaction. Corporate and SME segments are clients that will tend to increase transactionality and volume with the bank. And we remain of an opinion that liquidity is clearly not an issue. We are very strong in liquidity, as you have seen not only in the ratios, but in the performance on the own balance, liabilities. And we remain, I think we remained an engaged bank with a strong leadership and with a -- with a strong kind of strategic lines of how we have to react and how we have to -- we should adapt to this crisis.

So, this is in a nutshell what I wanted to share with you. And I think now we can -- we can open the floor for Q&A. Thank you, Andre.

Questions And Answers

A - Andre Parisi {BIO 21511610 <GO>}

Okay. So now we start with the questions we received from the webcast. First one is from Victor Schabbel, Bradesco BBI. Given the impact on the capital ratios as well the more challenging scenario ahead, should we expect a lower payout ratio to 2020 and 2021?

A - Angel Santodomingo Martell

Yes. Well, let me elaborate here. I mean, first, in terms of payout, as you probably have seen, we announced yesterday night at the closure of the markets, a dividend of BRL890 million, approximately $200 million, which is a payout of 25%. This follows the rule announced by the Central Bank in which maximum payout would be that 25%. In the past -- in the previous quarters last year, we were devoting quarterly, approx BRL1 billion. So, we have not being too far of our traditional remuneration to shareholders.

I always have said to you, I mean, we will pay out. We'll always be a consequence of return on equity and growth of risk-weighted assets, given a certain level of capital ratio that we want to maintain and that certain level of capital ratio is about where we are today. In capital, this quarter, we have had basically three impacts. One is what I mentioned, the growth of risk-weighted assets and another one is the mark-to-market positions that, as you know, are mark-to-market against the capital and markets have certainly been negative or volatile.

And the third one is ETAs. Well, it will depend, obviously, I mean, as I said, we have around 300 basis points of sufficient capital compared to needs and minimal level. So, we don't feel in that sense any kind of additional need or additional measure. And we will take decisions in payout accordingly to the variables I mentioned to you. And obviously, within the Central Bank rules that are to stay down to September 30. So down to that moment, a maximum payout will remain at 25% and we will take a decision. We will -- the current position is, okay, let's see how second Q performs, what is the result that we present, what is the strength, what is the transactionality, et cetera, and we will take a decision by then.

A - Andre Parisi {BIO 21511610 <GO>}

Okay. Next question is regarding asset quality. We have one from Mario Pierry, Bank of America. Can you explain the strategy of a reducing reserve coverage ratio ahead of a likely asset quality crisis?

And this other question is a follow up from Jorg Friedemann, Citi. Despite an increase in provisions this quarter, coverage declined. We know that there is limited visibility on asset quality so far. But what do you think is a comfortable coverage to navigate through this convoluted period?

A - Angel Santodomingo Martell

Well, the evolution of coverage ratio, I have shared with you in previous occasions is a consequence of our provisions in our criteria-making provision, which may be either the minimum coming from Central Bank regulations or criteria, more conservative that we apply in each of the cases. So coverage ratio has been moving in the last quarters and I'm speaking quarters and years. But basically quarters in between 119 to 110, if I remember, I am speaking out of memory, what if -- I remember. So, we are basically where we have been, again as a consequence of our provision -- our provision criteria.

It is true that we do not know what is coming in front of us, but it is also true that our proven kind of way of looking at risk and how we have been dealing with these, along with all the measures that the country has been taking, let me remember you, for example, the last ones that have been announced is these two payrolls being paid to the SME workers with 85%, the guarantee coming from the treasury. If you add all those things, we think we have good coverage ratios and good provision policies. Again, we will adapt these to the reality that will be coming in the next months, but we feel at these levels comfortable with the ratios we have presented.

A - Andre Parisi {BIO 21511610 <GO>}

Next question is from Marcelo Telles, Credit Suisse. Will you consider front-loading provisioning expenses ahead of the expected duration in asset quality? Has the bank run a stress scenario? What could we expect in cost of risk and CET1 in that scenario?

A - Angel Santodomingo Martell

Again, the provisioning policies will depend on what we see. We could have, obviously, done generic provision, just waiting and seeing how the quality is going to perform. We are seeing transactionality and activity going down, down. This means that we will have kind of two components here to consider. One is what happens on the supply side in terms of company's fast provoking unemployment and the other one is what is the strength of the coming back of consumer?

We are already seeing countries, both in Asia and in Europe, in which the coming back of activity is very strong and they are already at 90% of what used to be peak of it. So, you have all kind of arguments here to go either direction. This is why when we discussed internally, we preferred to see how the country is going to perform instead of taking pre-decisions, which is absolutely fair to do, but this was our position here.

In terms of core equity Tier 1, I mean, as I mentioned, the impact in core equity Tier 1, looking forward, will depend on markets and obviously, really where industries grow. Two, aside the capital through cost of risk, it's quite hard because you will have to bear in mind an absolutely strongest growth in provisions so that you end up with strong capital. So, I don't see the core equity deal won't be affected, obviously, depending on the profit that we generate. And again the same variables, I mentioned before, so that we maintain a decent and comfortable capital ratios. But I don't see the capital ratio for the time being, being negatively affected obviously, except for the fact that profit will vary depending on how things perform.

A - Andre Parisi {BIO 21511610 <GO>}

The next question is from Tito Labarta, Goldman Sachs. Can you comment on the loan growth expectations for this year? Do you expect a significant deceleration going forward, particularly given the strong growth in the quarter?

A - Angel Santodomingo Martell

Thank you, Tito. Okay. I mean, as I mentioned in the presentation, what we have seen is a different pattern compared to the past, obviously SMEs and corporates. When the crisis started, there was a demand for liquidity and we attended part of that demand. When measured started to come, things have kind of gone into a more comfortable or quieter way. Because remember, here we are just considering the last two weeks of March, which is when the crisis has started on the 16th and measures were discussed but not approved or even formally announced.

So, what I would expect looking forward is that, that pattern you have seen, not specifically the percentages, please, do not misunderstand me, but the pattern of growth has been a little bit more intensive in corporates, SMEs and corporates than in retail will probably be maintained. This has a lot to -- also to do with retail activity. I shared with you what is happening in the physical networks. Transactionality is going down. Depends on what you touch, but it goes from, I don't know 20% to 30%, 40%, you have public figures.

So, for example, on the core -- on the card industry, in which you have already 60% declines in some parts of the country. So, I mean you have a little bit of everything.

What is also happening is that -- and I can say that with you in -- what I'm looking at April is that from the minimum, things are coming back. We're going back. I mean we are reopening part of the branches that we had closed. I remember, I mean, we have 3,500 branches approximately and we had, depending on the moment between 500 to 800 of them closed. We are, as we speak, reducing that to the minimum that, following local rules of municipalities or state rules. So as that comes back, we will see how that transactionality evolves fast, your question in terms of volume for the retail or for the individuals. But my understanding is that the pattern will continue for some time in the line I'm saying to you.

A - Andre Parisi {BIO 21511610 <GO>}

Okay. Next question is from Otavio Tanganelli, Credit Suisse. Hi. Congratulation on the results. I want to get a little more color on Getnet's volume acceleration. Can you explain to us what are the drivers behind this increase and the sustainability of those?

A - Angel Santodomingo Martell

Yeah. Thank you, Otavio. Well, you have -- you have kind of two behaviors here. Okay. In this, let me speak about the card industry and then I will go around to Getnet. You have an evolution in which I mentioned in the presentation, a high competitiveness issues, competitiveness and prices, so affecting basically the credit side, not the debit, the credit side of the card business affecting the acquirers and affecting our renters. Okay. And that is negative. That is -- that has been negative for some time and we are still seeing a negative trend, which is not the same on the debit side. That is kind of the -- a little bit macro behavior of the industry and what we are seeing.

If you toppled on top of that, that as I mentioned, for example, specifically in cards, we are seeing transactionality going down between 30% to 40%, because of the isolation and because of the lower capacity of clients or people to interact, to consume. It all adds in the same direction. And April, for example, in that sense, probably will be a tough month for that part of the business.

Having said that, in Getnet, we continue with the same policy that I have said to you, which is maintaining our mix, again non-retail and wholesale using external networks to sell our POSs, specifically the small POSs, which is also still being a success, fast positioning our service in part of the market that we were not present two years ago, making a lot of efficiency efforts we maintain, we think. We will see when public figures come out, but we think we maintain the lowest unit cost per transaction.

And all in all, if we add to the kind of integrated offer with the bank and with e-commerce, et cetera, our marketplace, et cetera, that we offer to our clients, it continues to be a good history or a success story. But again, in a complicated -- in terms of competitiveness and price in a competitive environment, which I have been sharing with you for some time now.

A - Andre Parisi {BIO 21511610 <GO>}

The next question is from Carlos Gomez, HSBC. We see the impact from the FX hedge is very large between accounting and on the euro figures. Should we expect some reversal in coming quarters?

A - Angel Santodomingo Martell

No, this is -- Carlos, this is quite an easy one. I mean this is -- in these ForEx position what happens is that it generates DTAs and those DTAs are deducted from capital. Following current regulation, risk weighted assets on duration or weight is 300%. Okay. So, this is what you have there in terms of consumption of capital. It will depend on the ForEx and markets evolution.

I said to you, we have the ForEx. We have the mark-to-market of the deal curve. And these are going -- I mean the accounting principles are that we put them against capital. I don't see an issue here. What I see is that it will depend on the evolution what we see going forward. But it is -- that difference is exactly what I mentioned and the reason why the capital has evolved. One of the three reasons I said to you on why the capital has evolved in that direction.

A - Andre Parisi {BIO 21511610 <GO>}

Next question is from Domingos Falavina, J.P. Morgan. How much did you renegotiate on current loans, not past due? How much did you provision for each reais renegotiated?

A - Angel Santodomingo Martell

Okay. Domingos, thank you. I think you have the information about the portfolio that has been renegotiated, If -- I am speaking out of memory, but it's like from BRL5 billion to BRL4.5 billion or something like that billion. So that is the numbers we are sharing with you. What I will say is that in that -- I mean, your question is important because it is true that as we speak and going forward, the recuperation front, renegotiations also, but the recuperation front probably is going to be our focus of the full sector. And specifically, I can assure that is going to be one of our focus.

We have already done some changes, we did in the past. When I mentioned to you that we started to take decisions back in September, one of them was this one, to put in a strong focus in the recuperations. We, as you know, we have been -- I mean, we created a strong department around all that activity. We have return, which also plays an important role in that activity, in the NPL portfolio activity. And we have strengths in that. Just a couple of weeks ago or one week ago, in which we have reunified all those activities that we have a strength in that department, continuing what we did last September. So it is our clear focus looking forward, and we feel that, that is, strategically speaking, is one of the key lines for the next quarters.

A - Andre Parisi {BIO 21511610 <GO>}

Next question from Thiago Batista, UBS. Can you comment about the fund that the federal government created to finance the small companies, around BRL20 billion per month? Are the bank in lending using these resources? Can you comment about the main characteristics of this fund and expected P&L of this product?

A - Angel Santodomingo Martell

Yes, Thiago. Let me summarize what has been announcing what we banks have done. What is happening is that for those SME and corporate clients, remember to you that if there is a specific criteria in terms of revenues of those clients. So, we're speaking specifically of SMEs. For those SMEs that are already your clients, so this is not our competitive position in between banks, we will be paying. We, banks, will be paying directly to the employees of these SMEs two payrolls, two monthly payrolls for those SMEs that want to do that. That will be a loan at a SELIC rate. So, we are speaking that this is serious spread. 3.75% is the rate. This is a three-year long with six months moratory, in which the guarantee of that loan, 85% is guaranteed by the treasury and 15% by the bank. Liquidity wise, 85% is given by the treasury and the other 15% is freeze levelization of the compulsory reserves. So liquidity wise, does not have an impact.

Quality wise, we have a guarantee from the treasury of 85%. Now some -- the question that some time has been raised to me, which is okay. So what happens with an NPL happens? Okay. We try to recover it. And if it is not recovered at the end of the three years, the NPL portfolio that will be -- that we will have at that point, will be auctioned, will be sold for those that want to buy. And as you know, you have a lot of investors interested in those portfolios. So that is the way it works. It is a way of helping our clients, our current clients. Important to note is that this, as I mentioned are current clients, which means that we know them. We are comfortable with them because they are our clients. So it is something that it is not a new client that we have to investigate or analyze and see what is its risk profile.

Operator

Excuse me. The next question comes from Thiago Batista, UBS.

Q - Thiago Batista {BIO 15398695 <GO>}

Hi, guys. Just a more follow-up on the asset quality front and you had a comment about the evolution, et cetera. Two points that I want to know a little bit more. One, we saw some deterioration in your NPL ratio over 90 days on the corporate segment. Can you give us some color about the deterioration, if this was concentrated in versus client or not, or the segment?

And the second question. When we look to an NPL -- sorry to the gross provisions over NPL formation, this quarter, this ratio was much lower than the previous quarters. So, something close to below 80% this quarter versus around 90% in previous quarter. Can you comment a little bit on why the bank did provisions much below the historical average when we look to the formation?

A - Angel Santodomingo Martell

Okay. In terms of -- thank you for the question. On the 90 days NPL ratio, it is true that, if you see in the corporate side, we have, I think, the evolution went from 1.3 to 1.6. A couple of comments. First, you have these type of behaviors dependent on names. As you said, you make some names going in and out depending on the size and this moves the needle.

Secondly, we come from a historic low, 1.3 was a historic low if you compare year-on-year. We are still about or even below what happened one year ago or three quarters ago. But specifically, the behavior on the quarter is because of these type of names that go in and out have this volatility on a quarter.

Second question was in NPL formation. NPL formation, we -- I think in the quarter, we were at 1.4 %. We have been above 1%. If I remember, sometimes below 1%, but it was 1.2%, 1.3%, 1.4% kind of the historic average. Provisioning, as you said, it depends on the quarter. Remember again that we provisioned following the rules I mentioned before. So sometimes it can be 100%, 90%, 80%, 85% depending on the quarter and specifically, depending on the timing.

I mean, it is very difficult to analyze this on a quarterly basis. Because I mean, depending on the quarter, on the timing, if it comes in at the end of quarter or at the beginning of the quarter or if we go to the criteria of expected loss, if it is in whatever stage it is, the timing affects the quarters. So extrapolating a specific number in one of the quarters for me is difficult to comment.

What I would say is that, again, our provisioning is growing, is growing in line with portfolio. We see different behaviors depending on the segments in terms of quality, but we remain comfortable with the level of provisioning at this stage that we are making. And we will adapt these to what we see happening in this quarter, in the next quarter, et cetera. And we will take those decisions with effective behavior of our portfolio.

Operator

The next question comes from Domingos Falavina, J.P. Morgan.

Q - Domingos Falavina {BIO 16313407 <GO>}

Hi, Angel and team. Thank you also for the follow-up. The -- basically what stood out to me here, Angel, and let's be honest that you mentioned you're being prudent in the way you look at risks. And we're comparing this to your results here with, like in the US, for example, we saw four times more provisioning ahead of coronavirus.

We look at your parent company, Santander Spain. They did about EUR1.6 billion of provisionary provision. And that's full stacks. It's more like BRL2 billion or so. And we look at your provisioning level -- and I mean, your loans grew 22, your provisions grew 20. You provisioned less than the new NPL formation of the quarter. And what I understand, you can say, we're going to wait for these defaults to provision, which is Central Bank rule. It's different than saying, we're taking a conservative stance.

It seems now GDP has been revised downwards across the board, and you're bringing coverage ahead of the quarter. So, like, if you could elaborate why you think you're being cautious? Or we are just saying we're going to wait for it to really be forced to provisioned before we do it because we're having a hard time reconciling the two.

A - Angel Santodomingo Martell

Okay. Well, first, I wouldn't say we are burning coverage. I mean, what I would say is coverage, I mentioned has been traditionally between 119 to 110. And we feel comfortable around those levels. I also feel comfortable around 170. So it is not -- for me, I mentioned before that it is a consequence and not anybody able to really -- you mentioned, for example, our parent company, they are running with 70% coverage.

So -- and what does that say to you, it just says, again, that is a consequence of the provisioning, which by the way has done to be the right one throughout the different crisis, both at the group level and at the country level. So, I couldn't extract too many consequences out of that. Comparing with United States, again a difficult one, Domingos, right? Because the portfolios are such different. I mean, I understand the amount of -- with a lot of volatility in between banks, the amount of provisioning that has been done there. But I remember to you here, we have 64% of the portfolio of the individual portfolio collateralized. You don't have mortgages in United States.

So again, it's a little bit -- now eliminating those kind of comparisons outside the bank, I'm not trying to be -- and if I look like it, I am not trying to be -- to give the image of a optimism or a positive image. What I'm trying to be is factual. And factuality here means that the behavior we are seeing is the one we are registering. I mentioned in the presentation that second Q is going to be a difficult Q.

And we acknowledged that, and we will adapt to the behavior that we see in our portfolios. The only thing I have said is that we feel comfortable about our way of looking at risk. Obviously, that will mean adapting to the risk behavior that happens at the country level. And I also mentioned that cost of risk will deteriorate, but we think we have the capacity to go for that. Second Q is going to be better than the first Q, I don't think so. But I mean, giving you know, we have a lot of variables and I mentioned an example before. I can build the positive one with examples of Germany, or China, or New Zealand, or I can build a more negative one, which is a longer isolation process in which consumption and transactionality is affected in a longer way.

But in any case, second Q is going to be a negative Q in terms of relative comparison with the first Q, because we are already at the end of April, and we are starting to see how the society will come back to normal activity or to activity that maybe classified as close to normal now. So, this is our way of looking at that, acknowledging that things would get worse, obviously.

Operator

The next question comes from Thomas Peredo, BTG Pactual.

Q - Thomas Peredo {BIO 21712295 <GO>}

Yeah. Hello, Parisi and team. I would like to have two questions if I may. The first one is regarding the tax rate. It stood practically flat year-over-year, despite no payments in -- of interest and capital in this quarter and an increase in the CSLL. So if you could bring those -- give us a bit more of detail on why the tax rate stood flat?

And the second question is how the bank will treat the 60-day grace period to customers? Would these be accounted as renegotiated loans? And should we see an increase in the second Q in this line, or will be booked in another specific line in the balance sheet? How could we track this going forward? Thank you.

A - Angel Santodomingo Martell

On the second -- on the second question, Thomas, no, the treatment will be unless, obviously, they go into an NPL situation. It will be treated as a normal loan. We will obviously give to you numbers when we have them. We'll have full disclosure and transparency in terms of the amounts and diversification and the different quantities in terms of number of clients and companies, et cetera, that we are starting to grant to them. But they will be treated as a normal loan. If performance are normal, it's a normal loan.

On the tax rate. Andre, you wanted to make a comment?

A - Andre Parisi {BIO 21511610 <GO>}

Hi, Thomas. Regarding the tax rate, what happened this quarter was the FX impact that originated a huge amount of fiscal losses and we could use doing this quarter exclusively. So because of that and also comparing to the next quarters, we had also January and February with 40% yet and only in March, it was 45%. So looking ahead, if your idea is that it's going to increase the tax rate, yes. We do expect increase in our effective tax rate looking forward. Okay. So it was basically the FX impact during the quarter that we could use.

Operator

Thank you. The Q&A session is over. And I wish to hand over to Mr. Angel Santodomingo for his closing remarks.

A - Angel Santodomingo Martell

Well, thank you all for standing there. And I hope that we have tried -- we have clarified doubts and numbers. We are heading into, as I mentioned, just now into a second Q that is going to be a difficult one. But we feel -- we still feel comfortable around our capacity to go through the different crisis.

I really hope that you feel well and you take care of yourselves given the current environment. And I look forward to seeing or hearing from you in the next Q results. Thank you.

Operator

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