Conference Call Transcript
1Q22 Results
Santander
April 26th, 2022

Operator: Good morning and thank you for waiting. Welcome to discuss Banco Santander Brasil S.A.'s results. Present here Mr. **Mário Leão**, CEO, Mr. **Angel Santodomingo**, CFO, and Mr. **Gustavo Sechin,** Head of Investor Relations.

All the participants will be on listen-only mode during the presentation, after which we will begin the question-and-answer session, when further instructions will be provided.

If you need any assistance during the presentation, please call the operator by pressing *0.

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We would like to inform that the questions received via webcast will have answering priority. If you wish to ask a question via phone, please press *1. Once your query is answered, press *2 to leave the line. Each participant is entitled to ask one question.

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. Gustavo Sechin to introduce all the participants. Please, Mr. Sechin, you may proceed.

Mr. Gustavo Sechin: Thank you, operator. Good day, everyone, welcome and thank you again for joining us for our 1Q conference call this morning to discuss our company's results.

So here with me I have our CEO, Mr. Mário Leão, our CFO, Angel Santodomingo, and our Investor Relation team. So now I am going to first turn the call over to our CEO for his comments. Please, Mário, you may proceed.

Mário Leão: Thank you, Gustavo, thank you all for joining our first quarter results and this call, it is a please to be here for the first time as CEO of Santander Brasil.

I'll kick off with a very brief overview of the context we're in, then I will go over some of the strategic priorities I have outlined for Santander Brasil in this next growth cycle, upon which we are already all working on as a group.

So, starting with the context, we already noticed in the second half of 2021 the beginning of a deterioration in the credit portfolios resulting from the worsening macro conditions, mainly inflation and interest rates. Given that perception, we have taken several measures to adjust our risk appetite in several portfolios, mostly individuals and small SMEs. That has already been evidenced in our fourth quarter results last year when we grew our portfolio less than our peers and is reinforced now with a portfolio relatively flat to that in December, as Angel will present to you in more details.

These measures allowed us to have solid performances in some of our core businesses such as cards, where we grew fees close to 30% Q-on-Q to a record figure. We believe we have a very good combination of a growth-oriented culture with a good capacity to react to signals such as those we are now experiencing; therefore, our risk management culture is considered one of our key assets here at Santander.

We still have around 2/3 of our retail portfolio collateralized and we keep expanding our secure businesses with new products such as our home equity, already a market dealer within private banks with 23.4% share and R$ 3.4 billion in assets. Our auto finance portfolio, one of our most relevant, has improved its loan to value from 54% to 46%. We keep focused on growth and expect to resume a faster pace in the second half of this year.

In terms of our strategic priorities, we have set an ambition to become the best financial services consumer company in Brazil, 100% customer-driven, and we are now positioning our teams and our energy towards this goal. In practice, we will focus on 4 interconnected pillars:

The first one, as it should be, customer centricity. We will incorporate the customer advocacy mindset in everything we do, focusing on the client experience throughout the consumer cycle, pre-sale, sale and post-sale, designing strong and more integrated sales channels improving our customers' ability to self-serve and our own resolution capacity, development dynamic and personalized pricing models based on more intelligent CRM data and segmentation, and shifting our orientation from the typical banking classic product to consumer pull, a critical cultural change that will mean less cards and mortgages and more customers and experience. We exist to increasingly help our customers improve their lives and to fill their dreams, positioning ourselves as our true customer advocates will transform in several ways how we operate and will allow us to maintain our growth, our results, and our returns;

Second pillar is culture and people. We could only aim at this goal with a truly horizontal culture, which we already have, where empowerment, meritocracy and diversity represent key pillars and all pieces of the engine think and act as business units, not following the traditional front-office, middle-office, and back-office definitions, and having marketing is a critical component of our culture. We have been the first financial services platform to launch NPS on a full scale all channels perspective, we started at 40 in 2017 and are now running at 57, aiming to achieve 60+ before year-end. We are shifting our compensation models towards variable payouts based on consumer experience and results, where each of our 50,000 employees are salespersons and are trained to and evaluated by how they understand and serve our customers better than any other consumer company;

The third pillar is our integrated to sales channels. We will build the best sales platform in Brazil focusing on an integrated sale and post-sale offering through which our customers will be served 24/7 at any form they want with simplified offering and processes. We truly believe in the benefits of an Omni-channel approach where our digital channel where our customers increasingly choose to be served represents a key pillar, but not an independent one of our offering. We will keep advancing in transforming our traditional customer support team into a powerful and cost-efficient, remote sales channel. We will expand considerably our recently reorganized external channel, achieving several new regions of Brazil in efficient forms, and we will keep reinforcing our physical channel, a key pillar of our integrated sales strategy and an edge comparing to digital-only players. Our cross-sell and credit recovery capacities, for example, are considerably stronger at the stores.

We're already designing our vision of store of the future, a concrete step is our bank-to-go initiative, where we're capturing the ATM flow into our stores with a tablet-based offering, bringing more speed to our store customers and mobility to our salespeople. We will continuously look at the best cases within the consumer space and serving our customers where they are and how they want to be served;

The fourth and final pillar is innovation and capital. We will seek this transformation into a top consumer company with a continuous focus on organic innovation. The last example was our “Transfer Now, Pay Later”, so called *Divide Pix* in Portuguese, offering, where customers for the first time can pay in installments their instant payments transfer (the Pix) and 90% of the volume so far has been on new personal loans customers. Our *UseCasa* home equity product was only launched in 2020 and is already a market leader, as I mentioned before. We have just launched our digital channel for supply chain financing, SX integra, which will reinforce our position as a market leader in receivables backed financing, and we keep innovating on older products, such as mortgages, we have substantially reduced our delivery time on personal mortgages to a market best 19 business days and we’ll continue to add innovation to traditional businesses. All that capital deployment has been centered around delivering strong shareholders returns and payouts coming from a low-teens ROE 6 years ago to a consistent 20+ ROE on the last few years, one of the best globally.

With these 4 cornerstone strategies we plan to differentiate ourselves from our peers, not only banks, but consumer companies in general. Our revolution keeps based on stability, senior leadership, and management model with focus and an obsession with speed. Our recent succession represents well our culture; frictionless and improving our metabolism, meritocracy, and ambition even further. We feel proud to have one of the highest levels of career opportunities in Brazil and the creation of our first technology company represents that well.

We keep very focused on the SME space with multi-channel services offering personalized solutions when necessary. We keep expanding our agribusiness footprint as a whole and reinforcing our wholesale platform with strong businesses, such as our energy and commodities desks.

Overall, we will keep representing a continuous transformation and growth story and now our leadership couldn't be more excited with the years ahead including myself.

Thank you very much, I will pass it on to Angel.

Angel Santodomingo: Thank you, Mário. Good morning, everybody and welcome to these results, 1Q results presentation.

Well, first thing to share with you is a kind of a summary of what we are presenting today. As you may see, we continue to deliver sustainable and profitable growth compared to the past and during the last years. As commented in 4Q, a combination – and as Mário has mentioned – of higher inflation, increased interest rates and the level of a family indebtedness has provoked a deceleration that we provoked of portfolio growth. Revenue continued to grow consistently, as you will see in the next slides, partially offsetting the impact of rising inflation-related expenses on efficiency, reaching 36% in that ratio. Net income continued to be above 4, at R$4 billion, with a return on equity that maintains healthy levels at around 21 or 20.7%.

So, all those numbers and results have been translated into a consistent shareholder remuneration. The Board approved R$1.7 billion of dividend, which means an annualized dividend yield of almost 6%.

Next slide, all this is achieved through client expansion, but more importantly monetizing that flow, as you can see in this slide. Our total customer base increased by 5.8 million people in 12 months, but, again, our focus is not only on the number of customers, but on how to turn those customers base into a more loyal and profitable one. Loyal customers – and when I mean loyal customers, I am saying those with more than 6 products, so we are being quite acid in that measure, grew more than 2 times, 2.2 times faster than customer acquisition, which means 27% year-on-year. This means that we are not only enlarging the client base, but specifically making it profitable.

Revenues derived from our loyal customers rose by 12%. Acquisition through the digital channels, as you may see also, is again showing strong growth. So, all in all, strong growth in clients, strong growth in revenues, monetizing and making it profitable.

So, in next slide, as you may see, we keep enhancing the user experience and boosting engagement as shown by the numbers. Examples of these are: 70%, for example, of all new accounts are activated within 4 months, and 25% of new costumers become loyal within 6 months. Loyal customers make up 27% of our active customer base that, as you would imagine, are almost 6 times, 5.6 times more profitable than the non-loyal ones.

Next slide, we have spoken and shared with you the Omni-channel or the 4 channels strategy so that the client may choose how to transact, how to make a relation with the bank. Speaking of the 4 channels, the physical channel I have shared with you in the past that we have close to 15 million people going through our branches, through our shops every single month. 50%, half of that, are non-customers. But we also have what Mário said bank-to-go. Bank-to-go, which is already in almost 90% of our branches, we have reinvented how we address customer needs and flow on our physical channel increasing manager mobility at our branches and innovating the way we bring our products and services to customers. This is a service that we have where the ATMs are before you enter actually on the branch, and we activate and make a more speedy way of serving to the clients.

On the digital channel, more than 92% of our customer transactions are already occurring through that channel, and 17% of our digitally acquired customers were previously unbanked and chose Santander to establish their first banking relationship. This is another example of how ESG travels in a recurrent way across businesses and areas in the bank.

The remote channel is a critical part of our integrated offer to our clients. Sales increasing more than threefold in just one year reflects what I'm saying, and also quite important to see that almost half of the transactions occur outside commercial hours, outside from 9:00 to 4:00 PM.

And finally, our external channel, which recently launched a new platform, allows us to enlarge our offering to a larger number of Brazilian areas, but channel availability and integration enable us to boost that commercial activity that you have seen in the previous slides. As you may see, cards continue to grow at a rapid pace with over 95% of cards being used to current account holders. This is important for our quality of risk discussion that we will have later on.

Toro, our digital investment brokerage platform added over 90,000 new clients in the first quarter, clearly outpacing the market. Our sustainable business reached 5.2 billion of production in the quarter with our microcredit portfolio experiencing a strong growth of 47%, almost 50%, while our market share of CBIOS issuances reached 56%. So again, as you may see, this ESG example something that has coexisted in the bank for at least 20 years now.

Moving to the digital front or side of business, the streamlining of processes has boosted our productivity, resulting in a faster time to market for new products and services. Some examples are 76% of our processes running in the cloud, 74% of all personal loans are granted through the digital channel, where granted through the digital channel in the first quarter, and lead time for different products has clearly dropped, fast-improving NPS, as you will see in the next slide. And finally, continuing with a long series of efficiency improvement, cost to serve digital customers declined by 25% year-on-year to those R$ 24.6 per month, as I said, continuing a long series of drop in cost of service.

In slide 13 we have been repeating this through different quarters, but our focus is and will continue to be attending properly, so making the customer the center of our attention and focus and its satisfaction. A satisfied customer, a promoter, generates 7 times more revenues than the average in our case. We have been publishing our NPS score for some time now, it reached 57 points, as you may see, which is a measure based on more than 11 million messages being sent to our customers as well as direct conversations from our commercial units and management. Those 11 million messages mean approximately in between 30,000 to 40,000 messages per day in all our channels, so we are measuring it on a daily basis throughout the different channels.

Next slide let me insist about our divest and supportive culture. We continue to make progress on the women in leadership roles and in the proportion of black employees in our workforce. Ambition in this regard continues to be to reach 40% by 2025, and we have a training model based on internal multipliers that has helped strengthening our corporate culture and that I have shared with you in several quarters.

And finally, we have recently launched a new corporate guidance named Teams, as you may see in the bottom part of the slide.

Slide 15, before going into the numbers, I mentioned a little bit about ESG in some of the slides and we try here to make a summary as it is an integral part of our strategy, as I mentioned for the last 2 decades. We are carbon neutral, for example, since 2010 and an ambition of achieving net zero carbon emissions by 2050. We invested more than 280 million on sustainable crops in the Amazon region and I would like to emphasis also our objective of relying solely on renewable energy by 2025. Currently, this source of energy accounts for almost 60 (59%) of the energy used in our operations. You may see in this slide different commitments we have communicated throughout this year across with recognitions that we have received lately.

So, moving to results, on slide 17 we detail the P&L we presented to you this morning. On net profit, our net profit totaled, as I said, 4 billion, up 3.2% in the quarter and flat year-on-year. The quarterly increase can be attributed to a better performance in NII as a result of a better mix and funding results that helped to offset a higher cost associated with the transition to more normalized asset quality and stronger commercial activity.

Let me highlight some of the annual figures on the revenue front. NII rose by 3.8% in the year based on higher customer NII. Fees increased almost 6% over the year, here our customer base growth and higher activity boosted revenues from a wide variety of items, including cards. And on the expense side, provisions grew by 46% in a quarter, in line with what I mentioned in the last 2 quarters results. General expenses increased due to the collective bargaining agreement and inflation, but besides that we were able to have a good performance Q-on-Q with a drop of almost 2%, or 1.5%. The efficiency ratio came in at 36%, which improved in the quarter, but obviously with the pressure of higher expenses that I mentioned. And finally, return on equity we have maintained at 20.7%, as I also mentioned in the beginning.

So going through different parts of the P&L, next slide displays the evolution of our NII with a strong protagonism on the client side. Customer NII is growing at 13% Q-on-Q, which is a clear reflection of all what has been said about client growth, loyalty activity, etc. Thus, in 1Q product NII advanced by almost 9% Q-on-Q and 25% year-on-year benefiting from favorable volume dynamics and a better mix in addition to, obviously, a stronger funding result. Consequently, spreads increased by around 130 basis points on the commercial side.

On the other hand, and as I have been sharing with you for some time now, market NII is reflecting our negative sensitivity to movements in the yield curve with an offsetting role from our treasury side, or desk.

I mentioned in the last quarter that we were already taking limiting decisions on production since September, approx. September last year, September 2021, reflecting the adverse economic cycle we were saying. Thus, and as a consequence of this, our loan portfolio fell by 1.6% Q-on-Q, down to R$ 455 billion. Without the currency effect, that minus 1.6% will have been barely flat, around 0.6, minus 0.6%. Individuals continue to outperform in the year with mortgage, payroll, personal loans, and credit cards explaining part of the growth. It is important to underline that 67% of the individuals loan book is secured, is collateralized. SME remained virtually stable in the quarter, but performed well in the year, expanding by 12% thanks to the recovery in demand.

Given the Forex impact, migration to capital markets and a few amortizations corporate lending dragged down the growth of the total loan portfolio. Our funding also had a positive performance year-on-year and remained stable in the quarter. In this regard, we believe that the rise of interest rates will lead to higher demand for traditional banking products.

And at the end of the quarter, as you may see on the right side of the slide, our core capital stood at a comfortable level, reaching a Core Equity Tier I ratio of 11.7% and a BIS ratio of almost 15%.

Moving on to fees, despite the 1Q traditional seasonality, we continued to grow on an annual basis supported by the expansion of our active customer base and stronger loyalty. Current accounts and capital markets were the top performance in the quarter, while cards remained the best performance on a year-on-year basis. Looking at expenses, we again showed our strong commitment to control this part of the P&L through a decrease of 1.5% in the quarter. Let me remember that last September we had the salary agreement increase of almost 11%, so we start to control costs on a Q-on-Q basis. And even with that, in the year also we have an increase of 10+ percent that they are growing below inflation.

We continue to be focused on efficiency, as you will see in the next quarters. As a consequence of all this and as I mentioned at the start of my presentation, our efficiency ratio ended the quarter at 36%, a healthy level despite pressure from inflation and stronger commercial activity, and at this level we may well remain again the best in the industry.

On the next slide we can see how our asset quality has evolved. Quality had a deterioration aligned with what was expected and with what we have been announcing to you in the previous quarters. No surprise here I'm afraid. We continue to see that trend marginal and not exploding but a trend. Important to say that we share with you the situation in the 4Q results and that we took measures starting last September that are having their effect on P&L as expected. Our cost of risk grew to 3.5% in the quarter. This performance is directly tied to a migration to more normalized levels in the evolution of riskier loan products in our mix last year.

We are currently running in different ratios at almost or around pre-pandemic levels. We have also released approx. 0.8 billion following of our overlay following what it was built for. Credit recovery once again to form well in the quarter, reaching 740 million thanks to both continued solid management and the sale of written down portfolios.

Now let me revert to you Mário for the closing remarks. Thank you.

Mário Leão: Thank you, Angel. So just wrapping up, in terms of strategy, we aim to be the best financial services consumer company in Brazil with 4 key pillars, as I mentioned before, we will be centered around the customer with customer advocacy mindset in everything we do, we will focus more and more in customer experience throughout the cycle, not only the sale, but post-sale, we will have integrated sales channel on an Omni-channel approach, whereby each channel represents a pillar in itself, not independent, but in an integrated mindset. We have 50,000 people within our culture which think themselves and behave themselves more and more as salespeople. We're shifting compensation towards allowing these people to be remunerated by the way they serve, the way they listen, and the way they act.

In terms of innovation and capital, as I mentioned before, we keep focusing on organic innovation, we have very good examples live as we speak, some things we launched a few years ago are already market leaders, and all that with a capital orientation throughout we deliver some of the industry best payouts and return on equity to our investors.

We have delivered consistently over the past few years, we're delivering again in this first quarter, the ROE of 20.7% represents that, we keep adding clients, so we have part of our customers centricity relies on how we bring customers, how we make them more loyal, how we make them interact with us more and more, we're doing that, we keep the loan portfolio under control, our risk-oriented culture allowed us to have a very positive quarter, as I mentioned in some of our key portfolios, such as credit cards and a few others, and we keep having responsible growth throughout Brazil as a whole, throughout the society, and with a clear focus on ESG.

Overall, Santander Brasil will keep being a strong and continuous growth story, shifting more and more to a customer centricity, customer advocacy mindset, and with that we now open for Q&A and thank you very much again for joining this call.

Question and Answer Session

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

Gustavo Sechin: So, we are going to start the Q&A. Our first couple of questions is regarding our asset quality and comes from Yuri Fernandes, JP Morgan, Gustavo Schroden, Bradesco, and Tito Labarta, Goldman Sachs.

So, they are requesting us our view for NPLs in 2022 and also if we continue to see the return in 2018 levels or if we see a more challenging outlook given the early delinquency increase in the 1Q 2022. And I also they request us to comment on the increasing provisions in the quarter.

Angel Santodomingo: Ok, thank you. Let me elaborate on quality, as I have tried to do a little bit through my presentation. Let me remember what we discussed in the last quarter results and what we have been discussing with you throughout this quarter in the different meetings we have had. We started to take limiting production measures last September 2021, which meant that, as you saw in the performance of the portfolio, of the loan portfolio in 4Q performance, we were already growing at a lower speed, and in this quarter, we do have growing pieces, as you may have seen on the retail side and part of the SMEs, etc., but the portfolio barely remained flat.

Why we did that – and that is something like 6 or 8 months or 9 months ago – is because we started to see the different variables a little bit more tension, ok? So, what is happening right now? We are in the moment in which we have already taken those measures, we think that the measures we have taken are enough, those measures are starting to have some impact on the P&L, but still provisions are reflecting the vintages that we had before the production limitations, which means that that kind of timing processing which you start to see the effect on the provisions and you can recover from the activity in terms of launch will happen in the next quarter.

So how we see this is, yes, we are more or less if you see cost of risk, if you see over 90, those ratios are approx. below the pre-pandemic levels, so we have lived 2 years-space of high liquidity, we think that those measures taken will have the impact clearly in second semester and that will mean that we have controlled and we are comfortable with the evolution that both the portfolio and the credit quality is having.

So, the message here is clearly we keep on growing on the different portfolios that you have seen, and those measures were taken in the past and will have the effect in the near future.

Mário Leão: Just adding to what Angel said, Yuri, Gustavo and Tito, thank you thank you again for the question, 2 things I wanted to emphasize: first one is from middle-sized SMEs towards the very large corporates we're having very good performances in the credit portfolio, so those portfolios we did not take any actions on those and we will keep growing those as we see profitable levels of returns, so we we're not going to grow per se, we're going to grow with profitability in those portfolios, but you don't see any concerns since last year and we remain not seeing any concerns in those mid-corps upwards portfolios.

The second comment is: on the small SMEs, as I mentioned before, and individuals, even on those portfolios where we took measurements in terms of risk reduction since September/October last year, in some of those portfolios we are already taking new measurements to resume expanding the portfolios again using CRM data, using personalized pricing and risk-validation, so we are improving our models as we speak so that we can already resume some of those portfolios growing back to levels as we saw this year. So, given our growth orientation, we will keep the risk mindset, the risk mentality, first line of defense, as we say, but we're already looking through CRM data and personalized segmentation, we're already looking at expanding the portfolios again.

Gustavo Sechin: Thank you, Angel, Thank you, Mário. So, our next question comes from Tiago Batista, with UBS, and Marcelo Telles from Credit Suisse, and are related to the credit. Thank you, Tiago, thank you, Marcelo.

So, they are requesting us to comment on how much loan growth should expand in 2022, if we see the need to further reduce in our risk appetite or tighten credit standards.

Angel Santodomingo: Ok, thank you, Tiago, and Marcelo. We have accounted this year that we will probably grow in GDP nominal terms at around… depends on how we end the year and since inflation at around 8-9%, so seeing volumes growing at low double digits or close to double digits, I don't think it should be as strong. So, we continue to see that kind of capacity in terms of growth, we see the retail side growing here in the next quarters, probably the SME side, as Mário said. On the large corporate and corporate segments, there you have competition from capital markets, competition in terms of investments how the policy of investments is done, how the geopolitical general situation is going to go, so you can hold variables on top of these discussions around volumes and quality and etc.

Do we see more tightening? Not at this stage. As was mentioned, we are reopening in some cases, in small parts of the business, we are considering the growth capacity of our commercial kind of framework, so we don't see added decisions for the time. I think we took it at the right moment, that is some time ago, and that has worked perfectly as was in the past. Remember that in 2019 we did the same thing with credit cards, and it worked pretty well.

Gustavo Sechin: I think that we have some connection issues in the first question, so I will make the question again, Angel and Mário, it relates to the asset quality. The question was from Yuri, JP, from JP Morgan, Gustavo from Bradesco, and Tito Labarta from Goldman. Thank you, guys.

So, the question relates to our NPLs in 2022, our view and if we continue to see it returning to 2019 levels or if we see a more challenging outlook given the early delinquency increasing in the 1Q, and also, they request us to comment on the increase in the provision in the quarter.

Angel Santodomingo: Ok, I'm sorry about that. I'll try to repeat my answer before. Thank you, Yuri, Gustavo and Tito. What I was saying was that we took – and I shared this with you, you can remember in the fourth-year results and in different meetings that we have had throughout this quarter – we already took the measures we thought we had to take starting September 2021, ok? And those measures on production we're taking if you remember on the data on the 4Q Santander Brasil we had a lower growth in terms of the loan portfolio and the one that we have presented today is barely… the portfolio is flat in terms of amount, in terms of growth. As I said in the previous question, we think that the measures we have taken are enough and that they were taken at the right moment that is 6, 8 or 9 months ago, and now we are in the moment in which those measures – remember we have a duration of one year on the loan portfolio stood in the mortgages – so we are in a moment in which the decisions obviously are limiting the growth of the loan portfolio and we still have the cost of risk impact of the vintages for the production that was taken before that.

So, we are in that moment on which still provisions reflecting that previous reality and the loan portfolio growing at a lower pace. What do we see looking into the next quarters or months? We have already reopened part of the production, so parts of the portfolio production will recover because we already, as I said, took those decisions some time ago, and at the same time, we think that the cost of recent provisions, etc. should reflect all those measures pointing to second semester of the year.

And Mário, you had also some comments, right?

Mário Leão: I just wanted to emphasize what Angel just mentioned, so like I mentioned before, using CRM data, using personalized segmentation both for coverage and also risk modeling, we are already taking steps to reopen some of the risk restrictions we enacted for the past 6 months, so we are already re-expanding some of the key portfolios in our retail division from our mid-corps upwards in terms of the corporate segment, we did not foresee any issues last year, we keep not foreseeing, so we're going to grow based on profitability, so the opportunities arising we will be there, we have loads of credit lines available and obviously funding capacity to keep expanding our mid-corps and large corps businesses, it has been tougher given the competitiveness of local capital markets and obviously companies are funding less given lower levels of investments, but those portfolios remain very healthy and we will keep expanding those as opportunities arise.

Gustavo Sechin: Thank you, Mário, thank you, Angel. So, the next questions come from Gustavo Schroden, from Bradesco BBI, Tiago Batista, UBS, and Gilberto Garcia, from Barclays and are related to NII.

So, what should we expect in terms of NII with clients and NII with markets in the coming quarters? Can we assume that the 1Q 2022 is a proxy for the coming quarters?

Angel Santodomingo: Ok, in terms of NII, I tried to underline what are the main metrics that are below what we presented today. As you said and as you saw, NII from clients has performed strongly and this is based on several things, is based on volume linked to obviously mix, is also linked to spreads, and is also linked to products within the different segments. So, the 3 variables work very well along with NII from the liability side, the interest rate levels obviously is also helping in supporting that numbers.

So, that is the basic explanation. Again, in terms of procurement and in terms of transactionality, in terms of number of clients, in terms of linked clients, I gave you all the numbers throughout the presentation, we are growing much more in linked clients than in total clients, and also, we are growing a lot in total clients. So, we are not only growing in clients, but monetizing and strongly linking them and transforming those clients into loyal clients. Loyal clients mean more than 6 products, which is high, I think.

So, NII from clients strong, should continue in that direction throughout the year. NII from markets, I explained at least in the last 2 quarters that NII from markets would start to perform lower given our negatives NIM sensibility to movements of the J-curve. Last year we had the strongest J-curve movement in I think it is like 20 years, we have 800 basis points of J-curve movement. You know the sensitivity that we have because we have published that, we have about R$450 million for 800 basis points movement, if it is a parallel movement, given that it was not, we had different impacts there, but that means that the results from the Alco portfolio we are and will be much lower during the normally in the first year/year and a half depending on the J-curve and on the movements of the J-curve.

So, that is basically what happened. You have an offsetting position from our treasury activity that has had a good quarter but going forward what I would say is that I would explain what I said to you in the last quarters; clearly reflecting that negative sensitivity to movement and interest rates, which is what is happening. So, nothing abnormal in terms of performance, exception that the comparison always is a little bit strange because you see strong movements.

Gustavo Sechin: Thank you, Angel. Our next question comes from Gustavo Schroden, Bradesco, and Yuri Fernandes, from JP, and are relate to other revenues and other expenses and also non-operating results.

So, we could see a better performance in the “other lines” and non-operating income. Can you explain what is included in these lines and which lines had a positive impact, and also, can we please explain this CIP, this consolidation? Does Santander plan to divest from these assets?

Angel Santodomingo: Thank you, Gustavo and Yuri. Well, in that line I have always explained to you, you have different kind of inputs and impacts, positive and negative, it's always… I understand perfectly, the situation in terms that it is difficult to estimate it because it has certain volatility as has been in the past and would probably be in the future. So, what is inside I always said to you, you have different labor and provisions, you have authorizations in terms of interest rates, you have a little bit of impact from the Forex exchange rate, importantly you have transactionality costs there, so the larger the transactionality improves or goes, the more impact you will have and etc., so you have recurrent and non-recurrent items there that make that volatility clear throughout the quarters.

We already had also the CIP operation, this is an accounting movement in terms of moving from costs to investment in terms of how your account for it and that was also included there. But again, difficult to say with that for further or for next 3 quarters the evolution of that line.

Gustavo Sechin: So, our next question comes from Flavio Yoshida, from Bank of America.

The strategy on cards growth is focused on checking account holders. How different are NPLs from non-checking account holders from those who have checking accounts at Santander? Should this trend change in the short/medium term? Is the bank lowering cards limit for riskier clients?

Angel Santodomingo: Well, as we presented, cards continue doing an important of the business in several layers. What we have done with credit cards, as I said, is 95%, the vast majority of the cards that we are selling today, those are cards being sold to current account clients, that means that we know the risk profile and we know the evolution we have to have with them.

We commented in the past, I mean, for example, open waters credit cards or digital credit cards they tend to perform worse, that is clear, but with already clients that are Santander clients we know their profiles. This has also been quite active through different channels. For example, on the remote side, we presented the numbers, one year ago we were selling almost 300,000 products per month, now we are selling 800,000 products per month, and those products, a large part of that, include the credit cards.

So, the strategy continues to be well-positioned in that sense, we are applying efficiency to the product also in terms of the offering of products, and we will continue in that line. Mário, I think you want to make some comments here.

Mário Leão: Yeah, just to add to what Angel just mentioned, so cards are one of our quote unquote monoliners, historically it's 85 points NPS product, it's one of our key pillars for sure, but we want to integrate all our quote unquote monoliners to a totally integrated offering again customer centered with a customer advocacy mindset. So, with that in mind, we have shifted our strategy over the past 2 years towards cardholders which are account holders as well, which means clients/customers which are fully customers of Santander Brasil and through which we can explore our offering on our integrated channels.

That strategy is not only with cards, we are doing the same with our consumer finance company, our auto loans, which is the largest in Brazil, our consumer finance company for goods and services as well, and with that integration of our entire ecosystem, we believe we have a very strong growth line to develop here. We are already doing that with cards as I mentioned, we will do so exploring all synergic opportunities we have within our ecosystem, we will talk more about this in the coming quarters, and we believe card is a very good example of how we should operate as an integrated offering to our clients or customers and not necessarily independent monoliner approach.

Gustavo Sechin: Thank you, Mário, thank you, Angel. So, our next question comes from Tito Labarta, Goldman Sachs, and Gilberto Garcia, from Barclays, and are related to taxes.

So, can we also comment on the relatively low tax rate in the quarter and what should we expect going forward?

Angel Santodomingo: This has to do… I mean, as always, it has to do with interest on capital, I remember clear that we have the dividends that we have announced, part of those dividends are interest on capital, which have a good tax treatment, we will continue to optimize that throughout the year. We always give you a guidance of around 30-33% approx. on the tax rate that we should have throughout the year with up and downs depending on that interest on capital in the quarter.

Gustavo Sechin: So, our next question comes from Mário Pierry, from Bank of America. So, the question is: We noted that your branch network declined by 10% quarter-on-quarter, but your headcount remained relatively stable. Can we discuss the outlook for further branch closures and if they should be evidently followed by reduction in the headcount?

Mário Leão: I will take this one and I'll be very brief. As I mentioned a few times already, we have been and we keep being a growth story and that growth story is represented by a very strong sales channel, which we will keep improving, and a reliance on our physical channel, which we truly believe is one of our key advantages, not legacy in the bad sense, I believe it is one of our differentiations and we will keep expanding our physical footprint throughout Brazil both in terms of new cities and regions and also in terms of new neighborhoods in cities which are expanding.

We will do so with a mindset of looking at the portfolio we have and potentially merging stores and looking at whether we can relocate stores so that we serve better our clients, we are closer to them, we are closer to the flow, and that will be a continuous exercise. This number, this figure Q-on-Q and year over year is the reduction per se is not a reduction of stores mostly, 90+ percent of that number represents the consolidation of branch codes, which were now joining into one code, formally speaking is a reduction of branch codes, but it is much less a reduction of physical stores than as I said branch code. So, it is more a formality and something we're doing to basically clean up the number of branch codes we have, which is a formal figure we have with the Central Bank.

But again, the mindset is that of an expansion throughout all channels, including the physical one, and we will keep talking about our expansion in the physical channel throughout the quarters. Thank you.

Gustavo Sechin: So, our next question from Tiago Batista, from UBS: Can you confirm to us if the portfolio sold in the quarter impacted the NPL ratio and how much results it has generated?

Angel Santodomingo: We do all this kind of portfolio sales when we do them, they are fully written off, so we only sell fully written off portfolios, and I believe we made that quite clear, and it's business as usual, we do it every single year, we have them in some quarters, in others not, in this quarter we did have a portfolio being sold of around 100 million if I remember well, but again, this is something that is an ongoing process with fully written off portfolios.

Gustavo Sechin: Thank you, Angel. Our next question comes from Carlos Gomez, from HSBC: Could you give us an update on your views on 2 areas; auto lending and investment platform? Do you expect to maintain your market share in auto loans or is it becoming more competed? And what are your aspirations in the investment areas? Will you compete with XP or BTG?

Angel Santodomingo: Ok, let me try to address both areas, and probably Mário will also want to join us afterwards. On the auto, the auto sector is, as you know, clearly going through difficult moments in terms of volumes, so the total number of cars is dropping by around depending on the month 15, 20, 22%, which means that the activity itself in the sector is slow.

What has been our position along with the measures I already said before starting last September etc., what we are doing is we are building… we have built, in fact, it's already done, we have built capacity to address different publics and kinds that we were not addressing before with the same capabilities and the same capacity, and this is as I speak today. So, this is happening in April, and we will continue in that direction.

We continue to build a full ecosystem, we are leaders in the country and we want to keep on being leaders, we don't want to go in and out of that sector, we want to structurally maintain the activity in the lending, and that means not only our financial unit, that means Webmotors, that means the different acquisitions we have done, Car 10, solution for fleet that we have announced, going the direction of having a strong platform.

On the investment side, this is one of our core strategies, I mean we are growing into that field for some time and we will continue to grow into that field for some time, we are building a new platform, etc., etc., but we think that when we speak of lean clients it also means lean clients through the liability part of the balance sheet, and again, that is something key and totally important for us.

Mário?

Mário Leão: Just adding specifically to the investments platform, like Angel mentioned, this is one of our key strategies for not only this year, but the next few years, we are closing a very important step now in terms of technology offering, we are delivering as we speak a much stronger investment platform for clients and salespeople within Santander that talk to clients about investments, and that throughout the year will provide a big leap forward in terms of our technology offering and experience to our clients.

In terms of sales efforts, we already have the advisors, we have 250+ advisors already talking on a much more personalized base to our Select and Van Gogh+ clients, which are welfare in terms of assets, we will expand that platform within Santander not through external offices, we will expand through Santander 4-5 fold across the next 2 years, so that will be a big investment we're going to make in terms of providing more personalized content and approach which has to be on a personalized basis as well. That together with the technology platform that I mentioned before will provide a very big step forward towards our investment platform and we will be even stronger than we are today expanding in the product offering as well, but mostly focused on the distribution channel and technology platform.

So, yes, we are very focused on that, and we will keep expanding here. Thank you.

Operator: The Q&A session via telephone is open now. One question your participants only. Please wait while we gather the query questions.

Our first question comes from Pedro Leduc, Itaú BBA.

Pedro Leduc: Thank you, guys, for the question. Good morning, everybody. A bit on NII, could you help us understand a little more what drove the treasure results so close to zero? Just to help us see how it will carry on to the next quarters.

And still on NII, on the product portion, we wonder how far you think you are in terms of repricing the credits, the new credits to the cost of funding and cost of credit reality that is upon us. Do you think you are already halfway or more in these final rounds of repricing the new lines? Thank you.

Angel Santodomingo: Thank you. Well, I tried to explain on my previous answer, basically negative sensitivity to movements in the J-curve, which is a negative impact on that part of the P&L, positively impacted by our results in treasure. That is basically the summary of what I tried to explain to you and the summary of the numbers you saw in terms of market results, and this is a trend as I mentioned in the last 2 quarters at least, I don't know if more than that, but for sure in the last quarters. This is a trend that will continue throughout 2022.

Again, given our duration on the asset side and given the J-curve movement and the J-curve shape that we have today, this should last one year/one year and a half depending how it moves from now on. Remember that we hedge the commercial units in terms of cost of fund, ok? So, this is how it is reflected in our business model.

The second part of the question was pricing. Yes, we have already on the spread side 2 impacts: the funding side, or the liability side; and the client price, how it is evolving. What has happened is that during 2021 as the cost of funding was going up that spread was pressured, ok? We finalized that transfer throughout 4Q and 1Q, so I would say that now on the movements on the J-curve will probably be more positive on that side.

But are we done with the price evolution? It will depend on how things move in terms of the J-curve. In terms of transferring what has happened up to now, the answer is still yes, but that was already said during the last at least 2 quarters.

Operator: Thank you. The Q&A session is over. I will now pass the word to Mr. Gustavo Sechin for your final considerations.

Gustavo Sechin: So, I would like to thank you very much for joining us today. We know that we have a couple of more questions, but given the hour, we'll try to answer you lately, and once again, we are fully available here for any further questions, and thank you, have a nice day. Bye.

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