Q3 2017 Earnings Call

Company Participants

- Andre Parisi, Head of IR
- Angel Santodomingo Martell, Chief Financial Officer, Vice President Executive Officer, Investor Relations Officer
- Unidentified Participant
- Unidentified Speaker

Other Participants

- Carlos Macedo, Goldman Sachs
- Mario Pierry
- Thiago Kapulskis
- Yuri Fernandes

Presentation

Operator

Good morning and thank you for waiting. Welcome to the conference call to discuss Banco Santander Brasil SA'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 will begin the question-and-answer session, when certain 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 the questions received via webcast will have answering priority. (Operator instructions). Each participant is entitled to ask two questions. If any further information is required, please re enter the line.

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 as any 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 every one, it's my pleasure to welcome you to Santander Brasil 3Q 17, earnings conference call. This past quarter, once again, we had several important achievements, which will be presented by our CFO, Mr. Angel Santodomingo. So let me turn it over to Mr. Santodomingo. Please.

Angel Santodomingo Martell

Good morning everybody. This is Angel Santodomingo. Thank you Andre. I would try to go through the different slides kind of highlighting the main issues around our results in 3Q. So the main items that I will be addressing, you have got them in the first slide, which is -- I will first share the key messages, then briefly in one slide, I would try to discuss Santander Group's results, which have been already presented this morning . Then I will give you an overview of the macro scenario here in Brasil, which is also one slide, and then that will be followed by the highlights of the quarter and obviously I would end up with a wrap-up.

So starting with the next slide, I would say one of the key messages is obviously the profitability, I have been continuously addressing our desire to improve profitability in the last quarters. Our return on equity achieved 17.1% this Q, which is a continuous improvement in the last years already. So this is kind of the trend that the bank has showed and continues to show.

In the next slide, you can see the strong commitment that we have to deliver consistent and sustainable earnings growth and profitability, both net profit and return on equity.

In third Q, we accelerated these process and presented a net profit growth of 37% year-on-year. And our profitability that is 400 basis points higher than the same period in 2016. These dynamics has been supported by our retail segment, which went through a deep commercial transformation in the last few years.

Now it represents 65% of Santander's earnings before taxes compared to 42%, few years ago. On the slide 6, I can tell you -- we can tell why these trends has been possible, improving Santander's operating leverage, I have addressed these items during the last quarter, and I think it is important to understand that the capacity or the potential we have through improving our operating leverage in the P&L.

While revenues are growing close to 20%, expenses are controlled, has our efficiency ratio has strongly improved in close to 400 basis points. I would say that these dynamics is close to optimal. And growth comes in between all the initiatives through profitable market share on both loans and deposits, as you can see on the slide.

Let me say, we have three main messages in previous slide, which possibly can explain or may explain why this has been possible and is being executed. In the next slide, you can see first, retail, in payroll loans for example, both the distribution channels external known Ole Consignado our subsidiary and internal our few of our [ph] branches has performed very well.

In the quarter, we launched the digital payroll loan platform, which I will discuss further, and it had certainly contributed to the market share expansion process you may see in the slide.

Cards once again, we've had very good performance in the portfolio. We are optimistic about our prospects in this business. With differentiated products, such as American Advantage card indicated our strength in the product, I can share with you that last month -- last two months already, we are above 400,000 cards sold in the month all commercialized.

SMEs on the other hand, I will read this for example, I have mentioned in the last few quarters, we are making stronger efforts in this area and they can be seen here.

can be seen here. The market share gain is a clear indication that we have adopted the right strategy [ph] to expand our base of adding business clients.

SMEs, what strengthens our position in this segment goes beyond our financial offerings, as you know we provide a unique non-financial platform on our served program that helps entrepreneurs in their business.

In both Retail and SMEs and last but not least, Getnet, which remains one of the main pillars of our commercial strategy. It's revenues are growing at a fast pace and we continue to grow our market share while keeping profitability at healthy levels. It is worth bearing in mind that Getnet important goes beyond it's acquiring services. We consider it a crucial component in our plan to leverage the bank's revenues.

So this slide, the main idea are several examples of why and how we are gaining profitable markets share.

Second idea in the next slide shows that our leading businesses continue to run at full steam and continue to maintain their leadership and expanding. In wholesale banking, we continue to hold leading positions in several fronts including equity capital markets, project finance and Forex.

In consumer finance, our digital platform (inaudible) has completely changed the dynamics of car financing in the country. As a result today the majority of car financing simulations are done in the country are done through our app system. I would say clearly above 90% of them. We have been capturing profitable market share at a consistent and fast pace without jeopardizing asset quality. We are doing more than 1 million simulations per month through these policies. And third idea in the next slide, we remain focused on delivering user experience improvements for our client base, since we've seen -- as I have shared with you during the last quarters and years, customer satisfaction as the cornerstone of our strategy to keep growing in a consistent and sustainable manner.

And as I also shared with you one key metric for this is the net promoter score card. Some of the initiatives, innovative solutions launched in the past quarter are Santander One [ph] our digital platform offering financial advisory in different solutions. Digital payroll loans, a 100% digital solutions available to our clients in the whole life cycle and integrated with the banks offerings, because a streamlined process enabling a greater efficiency. And following the positive steps mentioned about our auto financing digital platforms, we launched a similar solution focused on customer goods (inaudible) is its name. It is already a success with more than 160,000 simulations per month with only two months being live.

All these innovations through increased customer satisfaction helped expanding our active loyal and digital customers translating obviously into higher transactionality, fast higher profitability as we will see when we speak about our P&L.

So advancing through the Santander Group's result -- Santander Group, I'm not going to elaborate here too much, you already know because as I said these slides have been already presented this morning. Santander Group net profit for nine months amounted to EUR5.6 billion euros or BRL21 billion.

The results of the Brazilian unit are important for the group as a whole.

In fact Santander Brasil accounted for 26% of the earnings in this nine months.

On the next slide, we are going to the next issue macroeconomic scenario. The Brazilian economy is entering a positive growth phase with low inflation, a stable currency and close to lowest interest rates in the history, I think it's almost 60 years that we haven't seen these lower -- close to these lower interest rates.

After two quarters of positive growth, the recession I would say is over and the economy is heading for a 0.7 approx. [ph] growth this year and possibly accelerating to over 2 or even 3% in 2018 with most sectors expanding albeit at different places.

We are witnessing the first signs of recovering in the labor market with a combination of a small but a steady job creation and improved purchase power of salaries. Due to existing economic, that road will not lead to meaningful inflationary pressures, in deed the inflation is expected to remain below target for at least another year on the back of adult labor and capital capacity, but also thanks to gains of credibility and efficiency in economy, fiscal and monetary policies.

This is paving the way for our country probably experiencing the lowest interest rates as I said before in more than 60 years.

This combination of growth and stability in loan rates is conducted to sustainable current expansion and development of capital market. So let me go in the core of the presentation, which is the first Q result highlights. On the slide 15 we bring to you some details of our performance in these nine months. The 35% growth in net profit is explained by a host of factors obviously. Just to name a few, net interest income growth on the back of the loan portfolio expansion process and healthy spread environment combined with combined story -- with our winning strategy on market activities and profitability gains on the reported NII.

Credit customer loyalty resulted in higher transactionality boosting the fee revenue growth. Asset quality and provisions were kept under the strict control and has been in the past years our comfortable position in both liquidity and capital.

Next slide, Santander Brasil's net profit totaled 2.6 billion in the quarter, 11% higher than the previous quarter and 37% above first Q'16. This is the 14th out of the last 15 quarters in which we have delivered earnings growth Q-on-Q. similarly in these nine months, net profit increased 35% year-on-year and is already at the same level of the whole year of 2016. This dynamic confirms that we are on the right track to keep delivering sustainable and resilient results. On the slide 17, we present the main lines of our results about which I will go into more detail later on.

Total revenues increased by 7% Q-on-Q and 18% year-on-year. I would underline these two trends; 7% Q-on-Q and 18% year-on-year on the revenue side.

Such good trend was supported by a positive dynamic on NII, the net interest income increasing 8% over the second quarter of '17 and 18% relative to nine months -- through the 9 months of '16, reflecting a good performance from all of its components, credit and funding NII as well as others.

Fees once again delivered a solid growth Q-on-Q and year-on-year of 19% with an excellent performance on current accounts, credit cards and insurance among others fast transactionality or limited clients.

On the expense side, allowance for loan losses increased at a very controlled pace in the quarter, but decreased substantially in the year by 9%. General expenses growing above inflation 6% Q-on-Q and 7% year-on-year, but are still at a lower pace on the revenues.

As a result net profit totaled 7.2 billion in 2017 so far. We will elaborate on the main concept in the following slides. So as slide 18 shows, our NII evolution, which came to almost BRL10 billion, 19 %higher than the 3rd Q 16% and 8% better than second Q of this year, the previous Q.

Before elaborating these numbers, I like to draw your attention toward spreads. It's opticality [ph] is flat, but considering the adjustments that the selling [ph] has had, I mean closing yesterday night we have the selling that it's almost half what it was one year and a half ago. It is clear that the bank is strongly and

It is clear that the bank is strongly and positively managing these values. Main highlights of numbers of these numbers are credit which continued its upwards trend reflecting there is still healthy spreads level and loan portfolio growth. Revenues from funding resume its expansion process even considering a lower selling rate environment as I mentioned growing 4% in the quarter and 35% year-on-year, in these nine months, clearly indicating that the liability management plan that I have been sharing with you for the last three years is having a positive impact on the P&L.

And finally, market activities under these orders concept had another solid quarter, mainly reflecting our value asset position. Our value asset positioning against lower selling rates. In fact you will recall, we could say the part of the asset NII income is included in these orders segment.

Next slide, we look into the loan portfolio. Our expanded loan portfolio increased by 8% in the year and 4% in the quarter, reaching 336 billion, which is I would say considered a good performance.

According to the latest Central Bank data total system loan book reduced by 2% year-on-year. So minus 2% in the system plus 8% Santander Brasil with private banks shrinking by 1.3%. So minus 1.3% private banks plus 8% Santander Brasil.

Individual portfolio, continue to deliver our excellent performance expanding by 5% [ph] over the previous quarter and 16% in 12 months. Payroll lending, rural and credit cards were the main growth drivers. The Consumer Finance once again delivered solid figures expanding 6% Q-on-Q and 16% year-on-year still taking the benefits of what I mentioned our auto financing digital platform. This I have been sharing with you during the last I would say four or six quarters.

Our double-digit growth in retail compares positively with a sector average of 4.6% year-on-year. So we are multiplied by three there. SME portfolio has also shown improvements althought still timid on both Q-on-Q and year-on-year. If you remember last Q, we had the numbers that were almost floppy saying we are clearly going for the positive side.

We are confident that this is the beginning of a new cycle. And finally, our corporate portfolio, which reduced slightly in the quarter, partially reflecting the strength of capital market and again improving strongly based on the performance of the previous quarter in which you could recall was deeply in negative recurring sense of the delta of the Q.

On the slide 20, you can see how our funding has moved, again a very positive picture, I would say. Positive growth on funding from customers are still reflecting more engaged clients growing 3% Q-on-Q and 6% year-on-year. Additionally, we have been proactively reducing the amount of financial bills, what we call here locally letras financeiras, which leads to a better cost of funding. These letras financeiras as you may see in the slide, have gone down from 67 billion to almost 39 billion. So we are speaking of almost 28 billion drop in nine months, in one year, sorry.

All in all, total funding reached 594 billion this past quarter growing 5% Q-on-Q and 12% year-on-year.

The next slide what we have been saying since 2016, fee revenue growth is a consequence of more engaged customers. Adequate pricing and improvements in the quality of our products and services, altogether culminated into increased transactionality.

Comparing these nine months to the same period of the previous year, total fee income jumped to 19% reflecting a good performance in mostly all lines. In the quarter, fee revenues climbed 2.1% with good results from cards and collection services with the highlight to cash management while insurance presented its traditional seasonal impact during the quarter.

Now, let's turn our attention to asset quality. The earlier real estate NPL continued with a healthy dynamic decreasing 30 bips in the quarter with improvements in both segments, in the real estate, corporate and SMEs. NPL over 90 days remained stable in the quarter at 2.9%. The individual segment delivered an NPL improvement for the sixth consecutive quarter and the corporate NPL improved slightly.

In our view these pieces continue to be an undeniable evidence that our asset quality remains controlled at comfortable levels . These trend continues to reflect the strength of our risk modeling. To further collaborate this statement, it should be noted that our coverage ratio reached to 130% almost a stable during the last two quarters, which is our premium of course a healthy level.

In the next slide, you will see the loan loss provisions net of recoveries that totaled 2.4 billion in first Q representing almost flattish 3% increase Q-on-Q and 14% lower than the same period of 2016. Also the cost of credit rose by 10 basis points to 3.3%, we still consider it to be at a comfortable level, especially compared to last quarters.

Moving to next to the side, we can share that expenses grew above inflation both Q-on-Q and year-on-year. Let me elaborate on these points, these dynamics comes as a result from a greater commercial activity and the impacts came mainly from first outsourced services reflecting the enhancements of digital processes, including the development of the different platforms I had been sharing with you in this Q and previous quarters.

Second, on the pricing and publicity there is an intensity of marketing campaigns for new and already existing products and services. Third, data processing. It is a number of transactions and accesses through different channels indicated that our clients are closer to the bank and using our services more frequently.

And lastly fourth, personnel valuable compensation, especially for the retail segment reflecting the substantial improvement in the performance. In the year, and this is an important number our total revenues grew 2.6 times faster than the expenses indicating that we are increasing our operational leverage that I mentioned before and we are in the right path. These numbers clearly reflect our growth with stock equity storing that I have been sharing with you both backlogs and forward.

Next slide brings our performance ratios into the spotlight. The efficiency ratio reached 44% in nine -- in these nine months improving substantially from the same period of last year and remain flattish Q-on-Q. The recurrence ratio in these 9 months stood at 81% -- 81.3% above 80% which in our view is (inaudible) already grants a great predictability and sourcing ability to our results.

And thanks to these advances return on equity improved further and reached 16.3% in these nine months and 17.1% on the last quarter. Compared to the same period of last year, we delivered a remarkable improvement, despite the challenging macro scenario in the country.

We reiterate our commitment this is a common place over the -- in the last -- almost two years to continuously enhance our profitability. On the slide 26, before my final remarks, you will notice that our liquidity and capital ratios remain at sound levels with stable funding sources.

Unidentified Speaker

The loan to deposit ratio remained literally flat in the Q at a comfortable 85% and the current Bis ratio is at 16.2% with our capital ratios are healthiest [ph], our core equity tier-1 level of 1.4.2% and tier-1 as you can see in the slide at 15.2%.

So let me wrap up and then with my final remarks about this third Q results before we go into the Q&A sessions.

Return on equity of 17.1% in the quarter, showing a substantial improvement and remaining significantly above our guidance for 2018, remember that guidance was 15.6% for December 2018. Total revenue is growing at fast pace, reflecting a healthy dynamic on loan portfolio and spreading client activity. Asset quality under strict control, it is evident our excellence in risk modeling. Greater productivity remains at the top of our priority list as our efficiency ratio improved 390 basis points in 12 months.

The good momentum for Santander Brasil has been supported by our strong retail machine, which now only, which not only sort of brings profit related to a higher level, but also grants a great predictability to our results. We remain well positioned to deliver sustainable ROE, return on equity improvements powered by a well-defined businesses strategy organic growth and disciplined capital deployment.

Thank you for your attention and I think we are now available to answer your questions.

Questions And Answers

Operator

Thank you. We will now start the Q&A sessions for Investors and analysts. (Operator Instructions). Please wait while we gather the queue requests.

A - Unidentified Speaker

First question comes from Lucas [ph], Credit Suisse.

A - Unidentified Participant

What was the driver of the sharp Q-on-Q growth in lower operating expenses. Does this line include provisions for the economic plans contingency?

A - Angel Santodomingo Martell

Thank you, Lucas. Well I tried to explain on my presentation the four main reasons, I would say, basically -- the basic idea is we've got a franchise as I mentioned; this is a growth focused story, so we are -- if a franchiser is growing as you can clearly see, and this means in some quarters obviously, we'll see some volatility here, because it will depend on the Q, but you can see that this is also reflected obviously in investment and in cost. Let me tell you we are totally committed and this is the Comex level, we are totally committed to maintain our control in these costs. mean with these type of turnarounds, with these type of growing stories, one of the things you have to be disciplined is in costs because you have these rich effect -- given that you're growing things maybe supported and then expenses can grow whatever they might and this is not the case in Santander, absolutely not. But on top of that we have to admit that that growth has to be funded, has to be supported by growth in operating. So I elaborated in four main consensus our source services advertising and publicity, data processing and personnel, I would say dropping our app 40% of that is kind of -- services or subcontracted services and the other 60% is kind of the marketing data processing, communications remember that you have also I mentioned the variable remuneration that given the strong performance we are having different areas and specifically in the retail side, we have started to account -- started to account it obviously not the total amount. In this Q that means also a little bit of an effect and the minor one also is that the salary increase that happened in the last part of the Q is also affecting that variable. Okay. That's a little bit of a summary.

Operator

Our next question from (inaudible)

A - Unidentified Participant

Do you have an information of whether Qatar is willing to sell the remaining stake they have in the bank now that the lockup period expired?

A - Angel Santodomingo Martell

Thank you. Lucas again. You are totally right, this is not up to the, this question is not up to the management. I can only speak about facts and feeling facts. As you said there was a small and very small group of players or individuals augmenting that at the end of the lockout period, we were going to have a kind of an issue around here, we are already almost at the end of the month. So time has gone by, and as if -- as I have mentioned in different places, it was not foreseeable in that situation. But I mean the best of all these type of assessments is time and time will go by and we will put in its place to everybody. That's the fact. Now the feeling or the sensation are -- management has the feeling that we have an stable shareholders sheet structure today and that the kind of performance that the Bank is having is reflected in those shareholders and I am not speaking only of the main ones. Because as you can imagine, we do have relationship with a lot of our shareholders. And that has being reflected in a stable shareholders and they are very happy and speaking of the whole shareholders database today with the performance and we are looking forward to seeing the -- delivering in the next ideas and that is reflected in the share price. And I'm sure that they will be of effect.

Operator

Next question is from (inaudible).

A - Unidentified Participant

Pleasing results and orders concept were really strong, the hype level in absolute prime are in relation to the total NII. Can you give some color on this strong performance and also what we can expect going forward?

A - Angel Santodomingo Martell

Okay. Thank you for the questions. Good questions. I will try also to address a little bit in my words, but let me try to elaborate here. I have been saying with you, first the position that we had is not that we shared -- that we had a long-term goal in terms of how we sold the trades and the selling rates here, that's the ALCO portfolio position. I will say that here we like to do a transparent exercise from what I see this is not common in the marketplace, but we do like to share with you the division in internal credit, our liability NII and all of this. So credit is growing, liability is growing NII and why is all this growing is basically because, I will say, part of the NII margin, and part of the liability margin, but basically the NII margin is in that orders. Why is in that orders because the ALCO portfolio is positioned in that way. We -- I would want to say we knew -- already we knew, we foresaw that these could happen, what we are seeing today and we positioned ourselves to help -- position not in trading sense I mean believe me we haven't sold a penny within the last I don't know how many quarters. It's just pure position in terms of helping which is part of the overview of the business of the bank in terms of positioning the ALCO portfolio innovation [ph] we want.

A - Unidentified Participant

Now, the next question will be, okay so how long, how sustainable is this?

A - Angel Santodomingo Martell

Well this depends on the receiving I would say, last , yesterday, we saw the last interest rate decrease that this depends on the receiving of the interest rate drop, but these tends to last in between 12 months to 24 months. We foresee that still will be the case. Okay. So that is the first part of my answer. The second part of the answer is, okay, on top of that first 2 months to 24 months do have additional leverage points in which we could compensate these lower rates, and the answer is yes. The answer is yes, because of difference in stress, because as you can see we are clearly grabbing market shares. So we do have a strong commercial platform today and we are grabbing profitable markets. And I always underlying profitable because we do not want to

grab market share for the sake of being larger. So first volumes, okay. Second, as you can see, we are managing the spreads strongly in an environment which the normal trends would be downwards, okay. So we are managing stress plus liability. I shared with you this liability plan almost two years ago, and I said to you, I am announcing the liability plan, we have these different kinds of leverage points to address and this will be happening during the last quarters, years. And this is what has happened. The NII from the liability side used to be 300 million, 400 million, today it is above 1 billion per quarter. So this is already happening and there is still some capacity there.

And finally, what I mentioned to you, the different strategies around -- and my final point is, on top of that, I would look at total revenues. A bank generates total revenues from NIIs and fees and -- and the focus or the strength if you are strongly committed to your commercial work force and to your commercial position in the market place, (inaudible) slightly in between. So sometimes you have a strong NII revenues, sometimes you have a stronger commission revenues, depending on the products that the clients select, depending on the environment, depending on the needs of the financial sector clients. So total revenue per client, total revenues as in all, how linked clients used the bank and generate revenues. That is what matters and this why also I tend to share with you always that customer experience, customer satisfaction, this type of things that normally sound a little bit fluffy, but in the end it is what we really target in terms of being a strong player here in Brazil. Sorry for the long answer.

A - Unidentified Participant

So next question from is (inaudible) from Bradesco. Could you give a little more color on other expenses. There were a big jump in commissions -- is related to pay roll, how the accounting works? Can you explain further and give some reference to what expect next for the other expenses?

A - Angel Santodomingo Martell

Yeah, thank you, Rafeal. I would say that in other you have different issues. In general trends, also -- unfortunately also it is called over has to do with business. You have very valuable costs coming from -- basically from our subsidiaries. I am speaking of Getnet, I am speaking of Ole Consignado payroll as you can recall or our financial arm, the auto financing arm. So all those fees that are growing strongly because of our business -- because our business is growing also strongly is one of the -- one of the main issues.

And obviously, always, you have others and although the others and this type of things that tend to be a little bit volatile. I have -- in other quarters, I don't remember when, I think it was couple or three quarters ago, I had the same question because that quarter also was a little bit peak in that sense, and you have this type of volatility because as you can imagine, you have always different -- all those concepts.

But this is basically the reason, subsidiaries is a strong behavior and commercial activity. So fee growing in terms of what we invest there and also what we pay through these subsidiaries to external parties or to correspondents that will go here or to other selling point that are not in the organization.

A - Unidentified Participant

Okay, the next question is, are you expecting strong growth in payroll earning, once again from Rafeal [ph].

A - Angel Santodomingo Martell

Okay, Rafeal. Also I mentioned a little bit about this in the presentation. But if I can expand what we did, I remember -- let me remind you have two kind of -- we have two lines of action here or two lines of 10 lines. One is what we call the internal one, which is through branches, which go normally directly to the client and the other one is through (inaudible) Consignado which is our subsidiary here, which is also focused on payroll loans through first parties. I was addressing this issue in you other question in terms of fees.

So why is it growing this strongly? Well, first, because it is gaining momentum. I may remember you that Ole Consignado has one year and a half of existence and it is clearly working really very well, the year is going to be fantastic for them. It is gain increasing momentum. We are focused and we have the right product and the right positioning. And internally, it is about the same thing. On top of that, we have the new digital platform that is starting to work pretty well. So if you add all that, good positioning, good tools, good commercial capacities and a clear strategy in terms of what you want to sell through where you want to sell it, that explains the net right positioning. Let me remind -- let me remember you that this Ole Consignado subsidiary, we did it after closing our activity three or four years ago through third parties because it was not at all profitable. So we closed it, we did again -- a joint venture with partners -- with industrial partners, partners that knew how to do this. And now it's clearly paying now.

Q - Yuri Fernandes

Next question is from Yuri Frenandes JPMorgan.

Long-term ROE, you know I read there for your 2018 ROE target, and the gap to some other priority periods have reduced materially. Can you please discuss company's goals for long-term ROE?

A - Unidentified Speaker

Okay, thank you, (inaudible). You are right, return on equity, w e had a (inaudible) reaching tradition reaching December 18 local ROE of 15.6 within what we share with the marketing in the refinancing investors that we are done. A nd we achieved that goal one quarter ago. S o we achieve that goal by June this year.

So I would say -- I would give a couple of idea, if you first o ur commitment to continue -- I have said this during the last. I dont' know how many already. I hope that you start to believe me now. I have said that we have a strong commitment of capital deployment, capital focus and capital profitably .This is something that has strongly change here. We have commercial units that in between incentive measurement, we have return on (inaudible)

So this is not only ROE have to be more profitable that we clearly committed internally to analyst the economic value added, t he economic profit that is re generated by assesment on a monthly basis. S o this is the positioning.

And in terms of numbers, let me maintain the no guidance policy. I would say that -- I will -- will like to keep it increasing to be clearly in between, what we would say comparables to (inaudible) I would expect -- I wouldn't -- I would make here competition -- I wouldn't extrapolate as asset managers say probably a lot of emptiness today. I wouldn't (inaudible) past experiences to the future. So because I mean we are clearly in a strong position in terms of growth of ROE. But again, we are committed to increase this ratio going forward into deliver it to our shareholders.

Operator

Thank you. (Operator Instructions) Our first question comes from Mario Pierry from Banc of America.

Q - Mario Pierry {BIO 1505554 <GO>}

Good morning everybody. Congratulations on your results. Let me ask you two questions, the first one is related to your fee income. We're seeing current account fee is growing 33%

33% year-on-year, your base of clients is growing but not nearly close to this pace. So this means that you're seeing increased usage by your clients as well as I would believe that you are also charging higher prices than before. So my question is related to your ability to continue to grow current account fees at such a strong pace? Second question is related to your loan growth as you pointed out the economic environment in Brazil seems to be improving you are growing very nicely in consumer loans, retail loans however we still see corporate loans contracting when do you think that our corporate loans could start to bounce back in Brazil? Thank you.

A - Angel Santodomingo Martell

Okay, thank you Pierry. Two good questions. First one fees current account usage, you're totally right. I mean we are growing more in fees than clients and this is a clear reflection of the bank -- of the model of the bank. What I do mean by this -- this means that we are clearly focused obviously in gaining clients, last month we gained close to 80,000 clients in retail. In that sense so clearly gaining clients as I mentioned selling 400,000 credit cards, but making the bank clearly much more transactional, much more usage. A lot of examples I gave to you the app -- the different app for different retail solutions I don't want to focus everything in detail, because it is not -- as you mentioned in this Q the NPA's. But we continuously focused on the Net Promoter Score. What does this mean -- I mean a little be more concrete. Okay. This means that by banks, by different segments, by different products, by different ages we measure the NPAs. And we measure it weekly at the branch level. What means that each branch has a weekly kind of intention of improving customer service and we do this because we know that customer services -- sorry customer experience, customer satisfaction means exactly your question, more fees or more revenues because they use more the bank. It is not not that we charge more, it is not that we are more expensive this is not to do in terms of -- is that they use more apps. I mean we have done with credit cards. We have done this current account, we have done them with all the different products that you can imagine. And if steel the question, do you have a steel space? We do have steel space. I mean and these will come some times from current accounts, sometimes cash management, sometimes with different councils that we have within the fee environment.

This is capitalized revenue, so it helps a lot in terms of profitability. So it's also good not only because of the P&L, but also because of the profitability. And your second question was loan growth, fantastic, I mean in terms of loan growth you made a very good analysis, I mean clearly the retail side is going out stronger and following a little bit SMEs and not yet on corporate. If we analyse the large (inaudible) we were at minus 5 last Q and in this Q they are close they are more closer to the positive territory. So on the delta on the margin we are improving, but still they are not there.

I would say that you have two variables here important. One is capital markets, capital markets usage is going to increase. So those companies that have access to capital markets they will probably use it and again that goes back to my discussions in terms of the fees, in terms of the banking role and the second point is obviously the economic environment.

How I see this is retail or individuals continue to grow SMEs gain increasing momentum both because of the economic environment, but also because of what I said to you -- with you the -- our SME planning that we have a strong growth rates there. And finally probably the larger ones and again, depending on capital markets conditions. The performance of the bank is clearly above the market. I don't want to repeat myself here, but we are totally confident that we are growing at the right moment and at the right pace.

Operator

Our next question comes from (inaudible) from Deutsche Bank.

A - Unidentified Participant

Hi. Good morning and thanks for the call. I have just a follow-up question, I guess on your loan growth. One, on the consumer side, just a sustainability I mean you're growing consumer loans 20% year-over-year and as other banks start to grow with the economy improving, do you think you'll be able to sustain that level of growth? Will it need to moderate somewhat just want to get a sense of how that growth will continue to perform? Thanks.

A - Angel Santodomingo Martell

Thank you (inaudible). I would say first why and then second where we are going. Why are we growing so much, it clearly has to do with these new platforms we set kind of four -- six quarters ago. That platform has saved a lot of cost, but it has clearly produced a market-friendly environment for the auto financing segment of business.

We have several ideas here, but the idea is first this simulation app is being used strongly. I mentioned in my words we guess because we obviously do not have official numbers, but we guess more than 90% of the simulations that are being done in the country are being -- are using the app, so it's a very strong number as you can imagine. Being leaders in this business put us in a very good position in terms of continued leading going forward. It gives a lot of flexibility both for car dealers and for clients and they position themselves quite quickly in what they want and how they want to do everything.

We have a front book market share of around 23%. We could go up to 24%, 25%, but we probably don't want to go further than that. So would I be a able to get maximum market share if I wanted to, the answer is clearly yes. I could be grabbing much more market share on the front book than I am today. But obviously I have my criterias and my profiles and I am going to stick to them.

Going forward, we guess that we were going to have a stronger competition before I would say that obviously it's going to come and we more than welcome that situation. So going forward probably the rate to the pace would be as lower than that 20% or 20-plus percent. Again we are speaking of something like 10% of my total book. So it does have a representative waver, I mean 10% is part of the book price and important leading business as I mentioned. But we are speaking off of an impact only in 10% of the book.

Operator

Our next question comes from the Carlos Macedo from Goldman Sachs.

Q - Carlos Macedo {BIO 15158925 <GO>}

Thank you. Good morning Angel and Andre. Thanks for taking questions. The first question, I want to go back to the question Tiago [ph] asked about your margins and about the impact of your ALM position. If you look over the last year -- for the nine months of this year, your ALM position or other position in your NII is up 31% versus last year, and you got get a lot of credit for your liability revenues as you said NIA being up 35, that's really impressive. But the things that I ask is it would sort of seem to me that the gains in liability NII and in loan NII are much more sustainable than the gains in the other NII and that's why we asked the question. If you normalize this year's NII to last year's your ROE is around 14 a little bit over 14% which isn't quite as impressive is 16.8 and still short of your target for 2018, but on track to get there. How long do we -- should we expect? You said 12 to 24 months. How much does this contribute to your nine months, of the 31% increase how much did the -- your position in ALM contribute to 31% increase in this other line?

Second question on cost of risk, cost of risk has gone up for the three straight quarters now, even though your asset quality has been flat and actually improved and then the book to individuals. Can you talk a little about that, is that just a factor of mix, is there something else we should be looking at? Thank you.

A - Angel Santodomingo Martell

Okay. Thank you, Carlos. On your first question, as I mentioned in my words before, I think I addressed a little bit these questions. And you're right on that part of NII is growing. As I mentioned, probably, we want to be, not we are, we want to be very transparent here and this is the reason why we are sharing with you both asset liability and the orders NII components. And it has to be understood what I mentioned also the part of both the asset and the liability NIIs are included in ours. The ALM activity, again without trading, without that cost, because I mean when I was at the other side, I always understood this as a trading component. We do not trade here. Okay. Obviously treasury does and other part of the bank (inaudible), but we do not as a bank trade on these positions.

The component of that is positioned for these lower selling rates. And as you mentioned and repeated, the 12 to 24 month effect will be there, probably if the selling rates continue to drop as we saw in the last, just in the last quarter. So going forward, I mentioned, we have these effect that will last not forever, but will last. And on the other hand, we have the capacity that the bank will have to continuously deliver both on the asset and in the liability side. And we do think, we have that capacity. So you have to analyze again, we have to analyze when you speak about the recurrences or when you speak about sustainability, we have to analyze both total NII and both total revenues. So total NII, do we have that capacity, I would say yes. On the asset side, we have already shown what can be done and we will be improving going forward. On the liability side, the same thing. So all-in-all, that should keep on improving with the non-structural impact of the of these orders going forward.

And again, then we link that from my previous answer in terms of fees. We have to look at total revenues, we have different sources of total revenues, more or less capital like. We do have moments in which you have more intensity coming from NII, always that if you have more intensity coming from commissions. At the end of the day, what matters is total revenues per client, depending on the products, depending on the different things that they demand or that we need what they want to be sold. In terms of cost of risk, let me say to you that it is through your assessment in terms of increasing cost of risk in the last two quarters, but we are speaking of increasing 0.1%. So it is already ten quarters in which Santander Brasil has been best of class in cost of risk.

We just love to be in that position, but already, we are speaking of two years and a half in which we can say that our risk modeling process in an environment as the one that we have had here in Brazil has proved to be the right one. So yes, it is increasing, the cost of risk if we compare to the last year it was 4%, now it's 3.3%. So it's been 3.1%, 3.2%, 3.3%, but it's -- we have also compared to the fact it was 4%. It has to do with the mix, you were right, Carlos, it has to do with the mix, but obviously it has also to do within a strong commitment, the positioning from our risk performance in terms of understanding client behavior, in terms of understanding modeling, in terms of being closer to the business, in terms of being proactive in maintaining the independence position, considering our volume growth and our position in terms of market share.

Operator

Our next question comes form Thiago Kapulskis from BTG Pactual.

Q - Thiago Kapulskis {BIO 19187926 <GO>}

Good morning, everyone, and thanks for the opportunity to ask questions. So I have a couple of questions. The first one, I mean in terms of expenses, I mean of course you're growing, your growth is coming very well, but expenses have been coming a little bit above inflation, right. My question would be, could you be able to grow expenses below inflation, particularly if the macro doesn't help and there is some deceleration in growth or something like that? That will be my first question. And my my second one, a follow-up on the ROE question. Obviously, you're doing very well in terms of profitability. But of course, we have a structural difference versus your peers, which are in asset like business like insurance and also asset management. So would you be willing to acquire or be more present in those business in the future, so your ability to improve ROE could strengthen even more? Those are my two questions and thank you.

A - Angel Santodomingo Martell

Thank you, Thiago. In terms of expenses, I already elaborated the causes why we are growing in terms of percentages and in terms of reliance or the relationships that we have with the evolution of the bank and the strength of the bank we show in terms of revenues. I would say what I also mentioned the strong commitment the management has to control costs. And I am speaking the comments, at the management committee, we are strongly committed to try to maintain this operating leverage capacity in terms of letting revenues grow and control expenses.

We have always said, we will try to be around inflation. So the answer to your question is yes, we will try to be around inflation, we have to understand that the franchisee is growing a lot. As I mentioned in my words, as we are growing 2.6 times in terms of revenues compared to expenses, but that does not justify that we will not put pressure on cost, we will put pressure on cost, and we will continue to leverage on that operational capacity, the P&L, the Santander Brasil's P&L has. So you should see the outcome of the overall efforts. Going forward, again understanding that you have revenues growing strongly, and we have to invest and we have (inaudible) ROE. Let me clarify because like if I have done this exercise sometimes with you. But let me clarify, we are are not out of the asset management and insurance business. I mean in fact you have seen the numbers. I mean funds, asset management funds are growing as strongly above 20% in this year. And we do part of the fees that you see in our P&L account, come from both activities, insurance and asset management. So we do collect, depending on the business, 60%, 70%, 80% of those fees in the P&L. It is true that we don't have the factory, we sold that. The group as you know is in the process of re-buying or re-acquiring the asset management business. So going forward, we know that these two businesses are quite strong in terms of capacity of adding both value in P&L. We are opened both to develop them, and to continue to grow with them. So I would say, we do have an ROE that is still and let me underline is still lower than our peers. But I would say that the capacity to continue to improve our profitability is clearly Including or it includes these two areas

Q - Thiago Kapulskis {BIO 19187926 <GO>}

Thank you. The Q&A is over and I wish to handover to Mr. Angel Santodomingo any for closing remarks.

A - Angel Santodomingo Martell

Okay. So thank you very much for your presence and your questions. I would say has been quite interesting and tense, I look forward to seeing you during this Q and of course in our next quarterly presentation. Thank you so much and good day.

Operator

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