

Q3 2016 Earnings Call

Company Participants

- Andre Parisi, Head of IR
- Angel Santodomingo, EVP & CFO

Other Participants

- Marcelo Telles, Analyst
- Rafael Frade, Analyst

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

Before proceeding, we wish to clarify that forward-looking statements may be made during the conference call relating to the business outlook of Banco Santander Brasil operating and financial projections and targets based on the beliefs and assumptions of the Executive Board as well as 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. Angel Santodomingo. Please, Mr. Santodomingo, you may proceed.

Angel Santodomingo {BIO 15757370 <GO>}

Thank you. Good morning, everyone. This is Angel Santodomingo, CFO of Santander Brasil. Thank you for joining us again in this third Q Santander Brasil's results earnings conference call. Let me underline what I will be covering in this morning. Firstly, I will

remind you of the main pillars of Santander Brasil followed by Santander Group results, an overview of Brazil's macro scenario. And highlights of the quarter speaking about our commercial activity and how the Bank evolved during the period and finally, I will provide some concluding remarks from what has been presented today.

Starting in next slide, in the past two years, we have been repeatedly saying that the most effective way to achieve our goal of being the best bank for our clients will be to focus on our commercial strategy and promote efficient management practices. (We need) client's recognition of our ability to continuously evolve to satisfy their needs is already being translated into better and more sustainable results for Banco Santander Brasil as I hope you will see in the following slides.

I would like to underline four points. First, I would like to underscore our commercial simplification process, which is linked to our digital strategy and is aimed at enhancing our overall customer experience by making Santander Brasil an easier bank to do business with. For instance, one click or clique unico is already operating in 91 of our retail branches compared to (33%, 21%) of our retail branches compared to 33% in January. This measure significantly reduces paperwork and creates free time for our retail teams to pursue more business opportunities. From the client's perspective, important one, they enjoy a faster service. We will delve further into this subject in another slide.

Second point, our commitment to provide an appealing service has allowed us to expand our client base, plus our range. Let me provide some examples, you've got them in the slide. Credit cards, we are increasing our market share in both issuer and acquiring business. In fact, GetNet is providing a continued gain of market share already surpassing 9% in the quarter.

Another important initiative was the digital revolution in our consumer finance segment. This quarter, we launched a unique system for stores and dealers that represents a new milestone in the auto-financing business. We have already installed that in 9,000 shops. We managed to reduce from (100 to 8), the number fields that must be filled out during the financing application process, allowing the seller to immediately inform the customer the amount of credit already approved according to each client's risk profile.

Regarding corporate clients for example, we highlight our focus on franchises businesses positioned mainly in SME segment. Since the beginning of this year, we have pre-approved more than BRL1 billion for franchise clients. We have also maintained our leadership in wholesale banking holding on to the top position in project finance and forex transactions and we achieved the leadership in M&A operations of the year. We also participated in significant deals this quarter such as insurance of (inaudible).

Third point, we succeeded in keeping costs under control highlighting our efficiency initiatives that we are responsible for keeping expense annual growth below inflation, which we internally call lean mindset and we maintain focus as has been in the past on our risk management model. Finally, fourth point, show that employees engagement levels have been explicitly increasing every year and we are proud to announce that in 2016 this year, both the bank and our consumer finance division were recognized by the Great

Place To Work Institute amongst the best companies to work for in Brazil. It was the first time ever for the Bank.

After these initial considerations, I would like to bring our digital strategy into this slide. Next slide, important part of the improvement in our results lies on our constant efforts to increase customer loyalty. Now, clients choice of doing more business with Santander suggests that they understand the value in having us as they go to bank. One of the findings of this development is the digital transformation that we are promoting. It directly affects client experience through mobile banking environment that is possible as back-office processes. For instance, our mainframe transactions rose sharply this year, which reflect an increase of loyalty customers coupled with our services offering through also our digital channels.

Let me share with you our key achievements in this field. Number of digital clients reached 6 million in September, which represents an outstanding increase of 25% this year. Our digital transactions already account for more than 70% of total transactions. In nine months, we have registered 4.4 million clients in biometrics and as we speak, this number amounts to 4.7 million. I remind you that this number last year was close to 30,000, 40,000 clients.

Sales of products and services online has doubled especially car sales, which grew fivefold in the last 12 months. We were the first bank to launch the Samsung Pay in Brazil and finally, App transactions (have solved) 58% in the last 12 months. We understand that there is room for this growth to accelerate considering the release of new apps such as the one we recently launched for universities which had over 12,000 downloads only in the first month.

Moving on to the next slide, as you probably already noted, Santander Group also announced its third Q results earnings reporting a net profit of EUR4.9 billion or BRL18 billion. The results of the Brazilian unit are important for the Group as a whole. In fact, Santander Brasil represented 20% of the Group's earnings in the last nine months. We would like to draw attention to the fact that the Santander Group is now ranked as the sixth of 27 financial institutions on the Dow Jones Sustainability Index. And Santander Brasil has got an important role for the Group climbing five spots in the ranking.

Regarding Brazil's macro scenario in the next slide, it is clear that we have passed an inflection point and we are confident that from now on we will see a gradual recovery in economic activity. Here is some evidence that we are moving in this direction. First, the political scenario has stabilized and Congress has shown inclination to approve the necessary reforms for the economic rebound. This has been imperative to restore confidence in the country.

Second, some signs of a recovery are already appearing in macroeconomic indicators. Let me give you some examples. Brazil's net exports amounted to \$45.6 billion in the last 12 months ended in September, the highest since 2007. Business confidence is improving. It is possible to see a positive investment trend through capital goods consumption and the percentage of sectors growing QonQ has climbed from (around 20% to an outstanding

FINAL

Bloomberg Transcript

70%). In fact, we believe that a broader recovery should be made by investments especially in infrastructure. Additionally, falling inflation expectations have created room as you already know for the Central Bank recently to start an issuing cycle.

Moving on to our quarterly performance on slide 10. As we have been saying, we are committed to deliver a consistent and sustainable earnings growth as we strive to keep improving our bottom line every quarter. Third Q results is another example of what I'm saying. The Bank's capital and liquidity position remain comfortable. The loan portfolio reflects our macroeconomic environment. But individuals showed resilience. Asset quality metrics were held stable and at comfortable levels reflecting proactive risk management.. Higher loyalty resulted in solid revenues underpinned by a combination of liability management and good market activity with fees repeating an outstanding quarter. We continue to place substantial emphasis on tight management of expenses. As a consequence, net profit reached BRL1.9 billion in the third Q, the best result in Santander Brasil's history.

Next slide, as mentioned before, net profit totaled BRL1.9 billion in the third Q of 2016 growing 4.3% over last quarter second Q 2016. Year-to-date, Santander Brasil's results have amounted to BRL5.4 billion, growing 6.7% relative to the same period of 2015 excluding extraordinaries that we presented last year. This remarkable field is further proof that we are on the right track to keep delivering again sustainable and resilient results.

On the slide 13, we show the main lines of our quarterly earnings about which I will go into more detail later on. But let me give you my first thoughts. Regarding revenues, net interest income increased by 5.9% over the Second Quarter, (so just in a quarter of 2016) and 6.4% in 12 months. Fees advanced 3.3% in the quarter with almost 14% year-over-year maintaining a double-digit growth pace that I have commented in past quarters we are trying to achieve.

On the expenditure side, allowance for loan losses rose around 13% both in quarterly and annual terms. General expenses were kept under control growing at a rate of 2.5% in the quarter impacted by the seasonal effect of non-recurring gains and reached 5.3% in 12 months, both of them clearly below inflation. As a result, net profit totaled BRL5.4 billion in the first nine months as commented and with this set of figures, we have once again clearly exceeded market consensus estimates.

Slide 14 shows the evolution of our net interest income which totaled BRL8.3 billion in third Q or as I said 5.9% higher than second Q and more than 8% on a year-on-year comparison. This increase was basically due to another quarter of good performance in market activities and client liabilities. Let me remind you here what I mentioned in my introductory words about our clearly leading position in forex activities. On this last item, client liabilities, we have been sharing with you during the last four quarters our plans that are now starting to be reflected in the P&L. On the other hand, credit NII spreads responded to a change of mix. But the level remains high compared to the recent past.

FINAL

Bloomberg Transcript

Moving to volumes, our expanded loan portfolio totaled BRL311 billion, which is an increase of 0.8% in the quarter and minus 6.3% in the last 12 months. Our credit portfolio grew 1.2% in third Q. This quarter, we incorporated the PSA Banque portfolio, the Peugeot Banque into our results. Excluding this effect, our credit portfolio would have grown a positive 0.5% quarter-over-quarter. Our proximity to clients coupled with a milder economy has provided a stabilization of our credit portfolio after several consecutive quarters of contraction at the margin.

Breaking down by client type, it is worth noting the performance of the individual's portfolio, the first line on the slide, which expanded by 1.9% over the previous quarter and 6.8% in the last 12 months. Payroll lending and mortgages continue to be the primary growth drivers. Consumer finance increased 6% QonQ reflecting the Peugeot portfolio and 0.5% on a like-for-like basis. Again, this compares strongly positive with an auto market that has severely contracted in Brazil leading to a gain of almost 20 basis points market share (in the year), thereby maintaining our leadership in this segment and showing that our model is efficient and attractive to our clients. Both the SME and large corporate portfolios are still performing at negative rates. But at a slower pace than previous quarters reflecting the macro scenario. Additionally, in comparison with the Third Quarter of last year, the corporate portfolio was affected by the Brazilian currency appreciation.

On slide 16, you can see how our funding has evolved. Funding from clients climbed 1.3% in the quarter and 1.4% in 12 months. Let me underline the positive performance of savings and deposits in this Q reflecting our initiatives to enhance engaged funds. In saving deposits, an item that has suffered substantially in our country. But on account due to the economic environment, we grew 0.7% QonQ when the system was close to flat.

In addition to that, I must note that this improvement in customer penetration also had a beneficial effect on assets under management, which jumped 6.2% in three months and close to 30% in one year. Total funding cash reached almost BRL531 billion in third Q representing an increase of 2% in the quarter and close to 4% in 12 months.

Next slide, as we have been saying, (new) revenue growth is a consequence of improvements in our product and service portfolio allied to continuous efforts to foster greater loyalty of our client base as well as an increasing number of our customers. Our initiatives are clearly bearing fruit as fee revenues posted another solid increase in the quarter growing 3.3% relative to second (quarter). Also it is difficult to underline the concept even with good performance of almost all lines, I would highlight fees in connection with client transactions such as current account and cards.

Total fee income reached BRL9.8 billion in the year until September. As I said before, almost 14% higher than the same period in 2015 and we're in line to meet our goal of delivering double-digit growth in 2016.

Okay, moving now to asset quality. NPLs over 90 days increased by 30 basis points reflecting the already announced single corporate cadence that we show in the last quarter in the 15 to 90 days over the portfolio. So it has moved from the 15 to 90 days to

FINAL

the over 90 days as it would have been expected. But I think I commented this in the last (few) conference calls in the Q&A. As a result, corporate NPLs grew 60 basis points while the 15 to 90 days dropped 120 basis points. On the other hand, individuals NPLs fell 10 basis points suggesting that the (deterioration in the individuals 15 to 90 days over is not translating into delinquency). That means that our asset quality remains under control at comfortable levels especially considering the usual lag between economic activity and NPLs. This continues to reflect the strength of our risk model and confirms that all actions we have taken and commented on the last three years such as portfolio derisking and diversification were the appropriate measures to protect the quality of our assets.

As a consequence of the increase in the over 90 days portfolio, obviously the coverage ratio declined to 198% which in our view is a quite comfortable level. On Third Quarter provisions in the next slide were adversely affected by this specific case I was mentioning earlier and reached BRL2.8 billion representing an increase of 13% in three months and almost 16% in the year. First, the credit cost climbed 40 basis points and stood at 4%.

Cost discipline in the next slide, as you know Santander Brasil's (clinchier) is well known by our cost discipline and lean mindset concept and true to those values, our total expenses amounted to BRL4.5 billion in third Q, growing (5.3%) in 12 months, which is clearly below inflation in the period. In the quarter, costs increased 2.5% impacted by the seasonal effect from the collective bargaining agreement and non-recurring events such as the start of the already mentioned joint venture with Peugeot.

Adjusting for these effects, our costs grew 0.6%, which is exactly half the inflation of the period. Going forward, we are committed to upholding cost control discipline as one of the hallmarks of our culture and as we have mentioned in several occasions we were in, we expect to keep our expense growth below inflation for the fourth consecutive year in 2016. I remind you that we have had four years in a row already of real savings in costs amounting to over 25% savings in real terms in costs in these four years.

Moving to slide in terms of ratios, we have also shown an overall improvement particularly in terms of efficiency. In fact, efficiency improved both quarterly and yearly and it stood at 46%. Our recurring ratio also improved to almost 76% and as you already know, every time we improve this indicator, we bring more predictability and resilience to our results. Thanks to these advances, return on equity keeps increasing at a gradual but a steady pace reaching 13.1% in third Q. We remain devoted to continuously improving our profitability.

On slide 22, you will notice that our liquidity and capital positions remain solid, (which is still funding sources in an adequate funding structure). The loan to deposit ratio was relatively stable at around 85%, which is quite a comfortable level. The BIS ratio stood at 17.6%, (still low) compared to the previous quarter and our capital ratios continue to be in good standing with core equity of 15.3% and Tier 1 at 16.5%. So as we wrap things up, I would like to draw your attention to the highlights of our third Q results, a stronger and consistent results with solid efficiency gains. Customer experience positively impacted by our digital strategy. We already are reaping the rewards of our liability management commented in the past. Fee income growth reflects our commercial efforts to increase our royalty customer base. Efficient management of extensions with fourth year in a row,

serving excellence in risk-model providing for resilience in asset quality and comfortable liquidity and capital levels.

Lastly, I will like to state the fact that we have an engaged team, highly important in banks of this size. Sound capital infrastructure and commercial (noble) focused on business with clearly defined competitive advantages in the local market, all of which place Santander Brasil in a powerful position to deliver higher profitability and sustainable growth ahead.

Santander Brasil is now the sole international commercial bank in Brazil with enough scale to pursue positive results in the future. Thank you for your attention and we are now available to answer your questions.

Questions And Answers

Operator

Thank you, we will now start the Q&A session for investors and analysts. (Operator Instructions)

A - Andre Parisi {BIO 21511610 <GO>}

Questions, first, regards NII, question from (Lucas Wapsias) and also Philip Finch from UBS. I like to understand the source of the impressive increase and gains with financial progression of this quarter, trading desk more active, should we expect normalization of this line to (BRL1.8 million, BRL1.9 million) next quarter?

A - Angel Santodomingo {BIO 15757370 <GO>}

Thank you, Lucas and Philip. Let me elaborate a little bit on NII. I would say that if you see the historic experience obviously this is above our average. But I must also say that we have outstanding teams in our wholesale banking activities. Let me remember what I mentioned in my words, we are the first forex transaction bank today in Brazil. This means activity, activity that are mainly reflected in this type of -- in the part for the P&L we are speaking. So market in general terms, I agree with you that they tend to be more volatile than other lines in the P&L. We are setting the standard. So we have a sound base in terms of activity here. I wouldn't like to give you an exact guidance. But I agree that the quarter has been positive compared to the past.

A - Andre Parisi {BIO 21511610 <GO>}

Next question is from Marcelo Cintra, Goldman Sachs and Mario Pierry from Merrill Lynch. I would like to better understand if the management believes that funding cost should continue to improve and what we should expect in terms of credit spreads going forward, if the credit spreads will continue to drop?

A - Angel Santodomingo {BIO 15757370 <GO>}

Okay, I can share with you, if I remember at least for the last four quarters, when we started to give a little bit more of focus on our liability side. So this has been commented

FINAL

in several occasions and as I mentioned also in my words this has started to be reflected on the P&L. This is kind of our positioning of the bank in terms of our focus in our liability management and we expect this is going to continue in the future. I wouldn't extrapolate obviously past growth because we are starting from low levels. But this a long-term plan, this is not quarter plan. As I mentioned in previous occasions, we have started, we are executing. And we are delivering. This is our way of dealing our view with the market announcing and executing and delivering.

And on the asset side, I think we have to play here with two variables with spreads and quantities and volumes. The normal trend as we go into positive territory in the economic cycle should be to see pressure on asset spreads. Remember here that we have two things, we have the pure spread on commercial activities and we also have the (obliques). In our case, normally the negative trend has to be more with mix and with pure spreads individually in (the different hurdles). But I have to agree that going forward and I'm speaking the next one, two years, we should see some pressure on asset spreads. Volumes in terms of NII should compensate what I'm saying as we go into important or more positive volume growth. But also if we speak of NIM of the ratio, help from the liability side from the funding side would come in to consider NIM evolution. But I have to really -- in the normal situation when we can cover growth, the consensus ourselves, everybody is expecting for 2017 and onwards 2018, 2019 is that asset spreads should start to put some pressure.

A - Andre Parisi {BIO 21511610 <GO>}

Next question is from Mario Pierry, Merrill Lynch and Guilherme, Itau. How about loan portfolio repricing? When should we see the full benefits of rising loan spreads on your NIM. Moreover, could you comment how your margins will perform in the scenario of lower Selic rate and what's the earning sensitivity to 100 bps decline in Selic rate?

A - Angel Santodomingo {BIO 15757370 <GO>}

Well in terms of repricing the loan portfolio, you know that we are speaking on the asset side of loan duration, I think our average duration is (0.9). We move into three months all sort of things up to two, three years in the cases of auto financing et cetera. But the average portfolio tends to be (0.9). So here repricing and rotational churn of the loan portfolios is quite quick. So I would say that, that type of repricing is not as in other developed countries and other places in which you have a low percentage of the book moving forward.

In terms of NIM and asset spreads, loan portfolio, I think I already elaborated on the question before and there was -- the sensitivity to Selic. We commented this when we were in London by the end of September in Investor Day of Santander Group, we updated our sensitivity. We have decrease of 100 basis points in the curve. We have a positive sensitiveness, which is close to around BRL400 million, a little bit more than BRL400 million. So positive sensitivity to lower Selic rate (inaudible).

A - Andre Parisi {BIO 21511610 <GO>}

Bloomberg Transcript

We are going into Philip Finch from UBS, with lower rates, are you now becoming more constructive in loan origination? In which segments do you think loan growth could peak up first, corporates?

A - Angel Santodomingo {BIO 15757370 <GO>}

Thank you, Philip. I would say, my first comment will be, we are and we have been constructive. Believe me we are open for business. But we want to give loans or with the adjusted bank rates. But we want to give loans. In fact, if you see our total loan portfolio, which is QonQ around 1% positive compares very positively with what the financial sector is presenting on our QonQ variations which is in negative territory. So we are hoping for business and we are constructive about that. It is still and I think it's where the equation comes in, it is true that as we see the economic cycle going into more positive territory or into positive trend, we should see volumes picking up. Let me elaborate a little bit by segments.

On the individual side, I would say that both what we are saying already, payrolls, real estate, (probably real) in our case should pick up along with some financing, consumption financing, I'm thinking of the auto sector. The automobile sector after the strong drop it has had in the last two years, at some point we feel it is kind of touching base or touching the low point of the cycle.

In terms of (SEK) relevantly on the corporate side, I would stay that we are starting to see both geographically and by sector align with the manufacturing some parts of food or agricultural activities obviously Southeast-oriented, I mean you do have kind of segmentation within the segment in which we see more positive trends and we will see them going forward. And I think this is a trend that is starting with confidence already. Investments should lead the cycle, which means that the banking activity is going to be important when these investments come in. Infrastructure-linked activities and financing will probably be strong. So I mean you have a variety of possibilities in which as a bank, we should be able.

And last but not the least, I would underline what I shortly mentioned in my words, which is Santander Brasil today is a unique international bank in Brazil with substantial scale after the exits of HSBC and Citi. We think, we should and we can leverage on a position that is unique in terms of capacity and this also leads to other things which are not related to the loan portfolio. As you know, we have been the advisor of the main M&A activities and operations that have happened in the last quarters coming for example from China. This is because we do have support from our wholesale activities in Hong Kong or in China in general sense and we work -- it happens also in Europe, (it happens all over the world). So we should be able to leverage that.

A - Andre Parisi {BIO 21511610 <GO>}

Next question from Mario Pierry, Merrill Lynch. This is the first time that we've seen a sequential improvement in loan growth in about one year and above industry trends. What makes Santander confident that it should start to gain market share now?

FINAL

Bloomberg Transcript

A - Angel Santodomingo {BIO 15757370 <GO>}

Okay, Mario, thank you for the question. I think (I don't want to be predicting our position on why we are not) gaining market share. I can elaborate in all the examples. I mean for example, due to the automobile financing, we had done a strong structural change to this business. We are the leaders as you know. We are not only the leaders on the market, we are the leader also as a second piece in web based, in the Internet, web based transactions in (management side), which we are also leading in Brazil.

So what have we done here? What we have done is we utilized the full process of a client going into a dealer and asking for financing for its car. Previously, what happened is that this had -- the client had to fill in (108) different information pieces. Today, it's just six. They go into the dealer, the commercial person offers to them the car, the conditions, they can analyze the sensibility to the different the down payment that they can do and literally five, 10 minutes, he goes out of the dealers shop with the car financed. It's a full detail process. We are saving 25% of the infrastructure we had thanks to these move. And this has already been applied as I mentioned to 9,000 different shops in Brazil as of October 1. So these are the kind of things that strengthens your position in the market as a leader.

We already seeing a strong increase of the amounts of financing in this business in an environment, which is strongly negative here in Brazil as you know because it is depending on the type of the car. But we are speaking of (between 10% to 20% decrease over and over after -- one year after another, which accumulated drop of 15% in previous cars). But I would say that we are confident in terms of the capacities that this one has in Brazil of performing an important role in terms of on the asset side.

A - Andre Parisi {BIO 21511610 <GO>}

Next question from Daniel, Itau. Considering the review in (socio security benefit), the last page for the federal government, how do you see your exposure from the payroll loan portfolio?

A - Angel Santodomingo {BIO 15757370 <GO>}

Okay. Thank you, Daniel. Andre is trying to speak it because he is translating at the same time that the question is coming in. So that is the reason why the speed is lower. Let me try to address the question Daniel and I would say our payroll position as you are seeing is stronger. I remember you have two different ways of commercializing and in both of them we even see with these social security changes, good opportunities.

We have the internal line which is through branches, that is performing nicely. We already have closed to 9%, 10% of markets in production month-over-month. So we are achieving an overall market share -- something that we were one, two years ago completely out. And secondly, we have the joint venture with (inaudible) in which also it's already achieving outstanding numbers in terms of production. We are provisioning close to (BRL1 billion) per month and as I said, we are achieving market shares that make more sense.

This is a business that you have to know, you have to be close to reality, let me call it like that. As you have seen and as you probably know in the last at least five, 10 years, the

number of players has dropped substantially. Substantially means, strongly in terms of not only number of them. But concentrating many players and we see here that we have a strong capacity. We are one of the only three players for example that offer a credit card. Here are the (inaudible) possibly going forward.

A - Andre Parisi {BIO 21511610 <GO>}

(technical difficulty) provision in BRL430 million after consuming some of the additional provisions in second Q. Just would like to know if these new provision is related to any specific case and if the bank plans to use it in the short term?

A - Angel Santodomingo {BIO 15757370 <GO>}

Yes, I address this in my words. I mentioned that this specific case in our 15 to 90 days, sorry in our last quarter, in the 15 to 90 days ratio. As I mentioned, this has moved to over 90 days movement provokes provisioning which has meant two things. It has meant that our provisions have gone up and it has also meant a cost of risk (however) and It has also meant that the quality has already dropped because of the increase of revenue in the NPL ratio.

I would say that the natural move of our case at least in this case is important but our case from the 15 to 90 to over 90 to the coverage to NPL ratio and to the cost of risk is a clear issue. Let me say with you something that probably is important. The NPL ratio moved from 3.2% to 3.5%. Without this case, it would have dropped a little bit. So we are controlling the risk profile (individuals) as you have seen and we think also it is controlled or should trend in a gradual way going forward in our corporate world. Again, this is why I underline so much in my words our risk model, because I think in Spain -- as you know in today's regulatory scheme, we do a lot of stress testing et cetera but for us, the best stress test is being and has been the last two years and we are the leader as you see.

A - Andre Parisi {BIO 21511610 <GO>}

Next question is from Philip Finch, UBS and Tito Labarta from Deutsche. When do you think NPL will peak? When will loan loss provisions start to come down?

A - Angel Santodomingo {BIO 15757370 <GO>}

Okay. Thank you, Philip and Tito. The NPL peak discussion is a kind of a long one. I would say that if the economy, which is what I said to you in the presentation, if the economy performs how everybody is expecting today, which means that on one side we have already started to see a decrease in interest rates, which is very important going forward, decrease is interest rates, confidence going up and investments are starting to happen, this should lead to already a positive variation in 4Q as well but positive variation in 4Q (will be temporarily going to 2017). Unemployment will lag and that lag that normally somewhere around the three months or six months will probably shorten because of the drop of interest rates and you will continue to see that drop. If you put all these in the pot, I would say that the economy will be strong enough to reduce that gap in between economy and NPLs and it starts with positive evolution somewhere in first semester of next year. In terms of -- obviously in terms of cost of risk of provisions, the answer will be totally adjusted to what I said before.

FINAL

A - Andre Parisi {BIO 21511610 <GO>}

Next question is from Salomao, Morgan Stanley and Carlos from HSBC. We would like to know of the specific case in corporate segment has impacted NPL ratio in 3Q, is that full provision, how much provisions did you build for this specific case in the quarter? Can you provide any soft guidance of cost of risk in 4Q and 2017?

A - Angel Santodomingo {BIO 15757370 <GO>}

Okay. Thank you Salomao and Carlos. I think I already answered part of your question in my previous words, I would say that we do not like to speak of clients of specific cases. We are devoting too much time to this issue because -- it was affecting the ratios. But we really do not feel comfortable in speaking one page of another. I already said to you that we had a comfortable level of provision last quarter. In this quarter, I would say that we are totally comfortable, okay. So I think that answers your question.

Guidance, in terms of the future, cost of risk, we do not provide. I already mentioned how we see both NPL and cost of risk going forward and I keep on saying, I mean if Brazil goes in the direction the majority of the market is seeing in terms of economic performance, we still have some, probably negative news coming from the evolution of unemployment. But the rest is going to strongly support an evolution in the next (few quarters).

A - Andre Parisi {BIO 21511610 <GO>}

Next question regards fees from Carlos Lopez, HSBC. On AUMs, why are these two included in your total fund if the asset management business no longer belongs to the bank? We understand that you got the fees.

A - Angel Santodomingo {BIO 15757370 <GO>}

Okay. Thank you, Carlos. Let me try to explain as you preferably say fees, we did pay fees but I mean, we have first concept. Obviously, we are speaking of balancing, funding or of balance sheet assets under management. So obviously, we do not include them as funding or on the loan to deposit ratio or on balance sheet et cetera. So that's an obvious answer. But let me make the disclaimer. How does this work? We have the commercial relationship with the client. It is our client. The only thing we sold as you know in the past was the factory.

We maintain, as you said, depending on the case that around 60%, 70%, 80% of the fees when we (serve these products). So we have the time. We have the assets under management (technical difficulty) any other product that we sold to them. The only thing that is out of the full process is the factory. But it doesn't change anything.

A - Andre Parisi {BIO 21511610 <GO>}

Next question is about RWA from Domingos Falavina, JPMorgan. Could you please provide more info on what drove operational risk to increase that much?

A - Angel Santodomingo {BIO 15757370 <GO>}

If I'm not mistaken here, this is a technical issue and probably investor relations can clarify this a little bit. But if I understand it well and I'm speaking out of memory here, it has to do with how it is calculated, it's kind of a semester average or something like that and depending on the semester that goes in and out, it varies in this kind of calculation. It has to do with that and obviously with the exchange rate. But I would guess investor relations can clarify specifically the calculation. Thank you.

FINAL

A - Andre Parisi {BIO 21511610 <GO>}

Regarding to your macro scenario from Mario Pierry, Merrill Lynch. If economic growth would be driven by increased investments, especially infrastructure, what role will Santander play on these investments?

A - Angel Santodomingo {BIO 15757370 <GO>}

Thank you, Mario. Important one, we expect to be a protagonist role. I mean as I said before, both because we are the unique international bank, one. Second, we are being able to intermediate a lot of the flows and interest that we see from outside the country into the country. We have mentioned this in previous words, we are the first bank today in project finance. We are the first bank today to lead in the position in M&A transactions, obviously in forex and equities. I mean I think we are absolutely well-positioned to leverage on this growth coming forward and we should be able to leverage. So I will say I expect it to be a significant not I mean to vary strongly the numbers that you will see. But our role is going to be an important one, I'm almost sure.

A - Andre Parisi {BIO 21511610 <GO>}

Thank you very much for your questions. And now we are going to hear more questions from the phone.

Operator

Rafael Frade, Bradesco.

Q - Rafael Frade {BIO 16621076 <GO>}

I have two questions, the first is a follow-up on the fees. You have been doing a very good job in terms of the increase in fees. I would like to understand where do you see that you are in this process, I know that you were working hard to increase the loyalty and segmentation of clients. I would like to understand if you believe that you are in the beginning of this process, in the middle or close to be more complete. So if you could give some color on this.

And the second question would be relates to your acquiring business, GetNet. We saw a significant acceleration in this quarter, all we would like to know if you could give me also a bit more color on this, if there is any specific case or a change in strategy, anything would help.

A - Angel Santodomingo {BIO 15757370 <GO>}

FINAL

Okay. Thank you. I'm going to try to address the first one, I did not hear you too well. So if I do not address, please do come back and I will -- because I didn't get exactly what you were saying on NII. If I understood you well, your question was around NII loyalty and how it would evolve going forward. I will elaborate a little bit on answering the previous questions, I expect that the positive trend or the different trends end up being positive.

What I'm saying is that on the asset side, remember the mix versus the spread gain, I would say that we have lost some market share, some share on the high spread, high cost of these products, it also obviously explains what is happening on the quality side and that loss of share has meant pressure on the spreads and again this quarter for example, the main reason for the almost 10 basis points drop and you have seen on the asset spread has been change of mix. But I also elaborated that going forward, going forward means not next quarter, I'm speaking of the next one, two, three years with normal change to the (treasure) on the asset side. But we have the liability side, the mean from the liability side or the incremental margin from the liability side which has already started to give some positives, should continue. So those are two only we have today.

On the loyalty side, speaking specifically of clients, as you know, one of our priority objectives that we have given in the (industrial sector where loyalty clients), we are increasing loyalty clients, we have a specific plans to increase the loyalty clients. I think it's already starting to be seen in the P&L and then specifically in commissions. But we will continue the same trend. We do think that loyalty is the main driver here. It has nothing or should have nothing to do with other variables in focusing on growing both clients and linked clients are the main variables. I expect that I answered it. Please, if I didn't, do come back.

GetNet, I would say that the acquiring business, it's one of the successful stories that we continue to speak about. But it continues to perform. GetNet is already around 9% market share. We said that we see it going up in two or three years to close to 14% market share. But I will say the discussion here is not about market share. Obviously, it is an important variable. But the discussion here is the commercial proposal. We have a strong commercial proposal, which is why we are driving market share. But that grabbing of market share has to do with the commercial proposal we are making. It has to do also with our higher presence in the retail market. We just launched what we call (inaudible) the typical one-person business and it is also starting to be sold nicely.

So the story continues to be for an integrated solution for the business whatever the business is and believe me this is not an issue here in Brazil. So we offer that our client has everything integrated, everything, got an account in POS. The POS is evolving obviously and this will happen in the future. But we are extremely confident. I mean it's not only in acquiring story here, the side of GetNet is clear. But the side of the bank is also absolutely clear. This is one of our commercial agreements with clients because we know we can go into these clients and payment rate and grab market share because the proposal is sound, is good. This on the bank side offers quite an outstanding commercial agreement to basic clients to grab new business.

Operator

Marcelo Telles, Credit Suisse.

Q - Marcelo Telles {BIO 3560829 <GO>}

Congrats on the results. I have a question regarding your dividend policy. Clearly, I mean you've been on a successful operational turnaround and it does look like that your ROE is going to continue to improve over time and you probably going to be able to keep Tier I ratio at very healthy levels and most likely a good payout. So how should you think about your dividend policy over the next years and what do you think should be your target core Tier 1 equity. Thank you.

A - Angel Santodomingo {BIO 15757370 <GO>}

I would say that our dividend policy, the payout ratio -- let us see what has happened in the past. What has happened in the past is that we are optimizing payouts in accounting profits. We are optimizing that payout. This is obviously both this cash. But what I would say is that the policy in terms of dividends has been to maximize (the remuneration that shareholders obtain). Going forward what I see is that again we have given guidance et cetera. But first as you said we stick to our return on equity and guidance and objectives.

Second, I would say that the discussion around dividend remuneration et cetera will continue to be based on the same variables. We have new things going in in the future. Let me share with you, 2017 is going to be the year in which we (could grow) amortization will strongly go down, during the year, this is not something specifically for 1Q. Probably going into 2018 (more than 2017), this is a good question to have in mind. But for the time being, I think that the policy has been quite clear. In terms of objective of capital, we always say the same thing. We have capital to use and to profit from. The bank has changed strongly towards focus on profitability and capital. This is being included or embedded in business lines and that is how we are going to move forward. I mean we are going to move in terms of optimizing the usage of capital (on the normal event).

Q - Marcelo Telles {BIO 3560829 <GO>}

We still have some more questions. Next one is from Carlos Lopez, HSBC on taxes. Could you tell us, what would you expect for this year and next assuming there are no changes in tax legislation? And also we noticed that you have maintained the size of your branch network although a level were close in the quarter while the workforce declined by 5%. Do you expect to expand your network to take advantage of the departure of some competitors?

A - Angel Santodomingo {BIO 15757370 <GO>}

Okay. Thank you, Carlos. On taxes, we have mentioned in the past quarter, the natural trend should be upwards. I believe that it is a difficult one both for insiders and non-insiders because it depends on a lot of things as you can imagine. We do have our (department) strength to optimize this part of the P&L. But I would expect marginally, again marginal, do not extrapolate these to huge valuations. But marginally should turn.

In terms of our branches and physical network et cetera, the question is a good one. But it's not a question for now, it's a question on the long-term. We are quite happy with our

FINAL

presence. We have close to 3,500 selling points in between branches and there's more branches. We are always optimizing as you can imagine. But optimizing doesn't mean closing, it means moving, it means positioning et cetera, I think which is totally business as usual.

Now, your question is very long-term anyhow it is going to be infrastructure of the bank, I assume that it will tend to change. But we believe the discussion sometimes is absolutely exaggerated, in the digital world is evolving and I mentioned day time how it is evolving. We see it as a channel, not an alternative channel, a channel, (but obviously both).

If you see the banking industry five years ago and now, you probably wouldn't have thought of it as we have today and probably five years in a row, you also change. But it doesn't really mean that the physical structure has to change or not. Different solutions to that discussion may be addressed.

Andre, I think we have some more questions or no, that's about it. Thank you, again for your presence in the conference call and in the presentation. We are proud of the results we presented. I hope you share that view and I'm looking forward to seeing you next quarter. Thank you.

Operator

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

This transcript may not be 100 percent accurate and may contain misspellings and other inaccuracies. This transcript is provided "as is", without express or implied warranties of any kind. Bloomberg retains all rights to this transcript and provides it solely for your personal, non-commercial use. Bloomberg, its suppliers and third-party agents shall have no liability for errors in this transcript or for lost profits, losses, or direct, indirect, incidental, consequential, special or punitive damages in connection with the furnishing, performance or use of such transcript. Neither the information nor any opinion expressed in this transcript constitutes a solicitation of the purchase or sale of securities or commodities. Any opinion expressed in the transcript does not necessarily reflect the views of Bloomberg LP. © COPYRIGHT 2022, BLOOMBERG LP. All rights reserved. Any reproduction, redistribution or retransmission is expressly prohibited.