

Q4 2015 Earnings Call

Company Participants

- Angel Santodomingo Martell, Executive Vice President & Chief Financial Officer
- Luiz Felipe Taunay Ferreira, Head-Investor Relations
- Sergio Agapito Lires Rial, Vice Chairman & Chief Executive Officer

Other Participants

- Victor Galliano, Analyst

MANAGEMENT DISCUSSION SECTION

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. Sergio Rial, Chief Executive Officer; Mr. Angel Santodomingo, Executive Vice President, Chief Financial Officer; and Mr. Luiz Felipe Taunay, Head of Investor Relations.

All the participants will be on listen-only mode during the presentation. After which, we will begin the question-and-answer session and further instructions will be provided. The live webcast of this call is available at Banco Santander's Investor Relations website, www.santander.com.br/ir, while the presentation is available for download.

We would like to inform that questions received via webcast will have answering priority. 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. Angel Santodomingo. Please, Mr. Santodomingo, you may proceed.

Angel Santodomingo Martell

Good morning. Thank you. This is Angel Santodomingo, CFO of Banco Santander Brasil. Thank you for joining us in 2015 results conference call. Firstly, I would like to turn the call over to our CEO, Mr. Sergio Rial, who will introduce and summarize our main messages. Then, I will come back to present our view about the economic situation and results of the year and fourth quarter. Sergio?

Sergio Agapito Lires Rial {BIO 1925337 <GO>}

Very good morning. So, it's a pleasure being here with all of you. Thank you, Angel. Thanks for being on the call. I would characterize the year 2015 around the following messages. First, I don't need to say that it has been certainly a challenging macro environment and I think the bank has initiated a very preventive action plan particularly in terms of NPL since 2014. So, we're glad to report unchanged NPL levels in the fourth quarter. Hardly any deterioration when you look at from a provision level 2014 to 2015. So, I believe that to be a highlight in light of the macro environment.

Second highlight, double-digit net profit. So, despite the environment, the bank has been able to boast an important double-digit net profit, a record year in terms of dividend payment, all of which I think reinforces the notion hopefully to shareholders of our commitment to value creation. Equally important and perhaps the most foundational piece of our strategy is that the experience of the Santander customer has improved. So, we have paid a lot of attention around quality, around accessibility, digital, making customers a lot happier with the bank as they interact with the bank through different channels.

On the wholesale side, I think we're also glad to report that despite the challenging environment, the bank has been able to continue to deliver an integrated model very, very focused on the upper end of the corporate segment in Brazil, but also the middle segment where I think we have shown particularly expansion and growth through our merchant-acquiring business, Getnet. That's another important growth pillar that I think we have been putting attention, and I think that attention will continue for the years to come.

Equally, and in terms of new growth pillars, I would also mention our payroll business, what we normally call locally Consignado (04:34) through our JV, Bonsucesso, inside of the bank. And the leadership that we still have and we'll pretend - and we'll intend to keep it for the years to come in the financing side. I mean, despite a challenging auto financing market, our financing business has posted a very, very good profit level with very low levels of delinquency, which shows that most of our models have been historically tested, and I think we know the levers we need to manage.

All in all, a solid year. And despite all I have mentioned, I think we're also proud to show that we paid quite a bit of attention on cost management. The bank will post at the end of 2015 of last year real savings of 15% in the last two years, so not an insignificant goal achievement. And if we compare, if we would deduct some add-ons that I think we have added on those years, Getnet and the payroll business, Bonsucesso, that I mentioned, the savings would have reached even more than 20%. So, cost management remains an

important attribute of the company, transcends the CEO, it is ingrained in the culture, and that's something that I think we want and we'll continue paying attention.

Now, talking about the group, I think the slide – the intention of the slide is the relevance of Brazil to Santander in terms of earnings, but more importantly is that despite the significant deval that I think we have all seen in the real, I mean, Brazil still remains an important piece but not so much because the number but because of the quality of earnings continues to improve. So I think the earnings of Santander Brasil have improved. And I hope – I think we also, after now two years, we start giving the market the reassurance of consistency, being a lot more predictable, and ensuring that what we are saying, we're actually doing and deliver to all of you.

With that, I'll pass the word to our CFO, Angel.

Angel Santodomingo Martell

Thank you, Sergio. Turning into the macroeconomic situation, the market is recognizing that the adjustment process in the economy has been longer than previously expected in between all the factors (06:53) due to the confidence level and uncertainties in the political scenario. But we must say that the economy is being a test. We have a GDP cumulative drop in three years, close to 10 percentage points. And monetary policy and currency are already playing their roles, all this with a fiscal consolidation in process.

In 2016, we believe we will see a lower and more controlled inflation, a gain in competitiveness, and a clean improvement in clear accounts that we have already started to see. These three items together would usually lead to a change of cycle. Thus, from the second half of 2016 onwards and going into 2017, we could see a slight improvement in the economy, not just because of a better say of the above mentioned factors but also due to administrative risk perception and early lower market volatility. And this is an area we will observe economic growth already in 2017.

Going already in what – in the highlights of 2015 results, some of them have already been outlined by Sergio, but I would draw your attention to the fact that despite the macro economic backdrop, as was mentioned, we registered a strong positive growth which was reflected also in the strong overperformance of our stock. Numbers that have supported these movements are: net profit reached BRL 6.6 billion, up 13%; net interest income and commissions climbed around 7%; leader in cost control, we continue to be leaders there, with the cost base increasing well below inflation, in fact close to zero in like-for-like terms; credit portfolio was up close to 7% while funding was up 14%, improving our liquidity position; NPL remain stable at 3.2% in an environment that is putting pressure there, with a strong increase in coverage ratio, we are close to 200% in coverage and will remain as in the past with a comfortable capital and liquidity position.

Let me go in each of the parts of the P&L with the concrete data. So moving to slide 12. As I mentioned, net income reached BRL 6.6 billion in 2015, an increase of 13.2%. On top of this performance, and thanks to our extraordinary results presented in previous quarters, in 2015 we increased yield and shareholder remuneration strongly. We have announced

BRL 6.2 billion in total dividends out of which BRL 1.4 billion were interest on capital. It is worth mentioning that we have presented positive growth as you know in the first three quarters of the year with a drop in fourth quarter, mainly due to three facts: market activities within the NII line that is, as you can imagine, the market activities are volatile by nature; seasonal increases in expenses; and higher provisions as we will see in detail in the next slides.

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Moving to slide 13, we can see the main figures of the P&L, which will also be detailed in following slides. Before I draw - I want to draw your attention that in fourth Q 2015, we had complimentary provisions for a gross amount equivalent to BRL 1.23 billion or BRL 800 million after tax, out of which, in NII, there were asset adjustments resulting on an impairment of securities on the amount of BRL 417 million before tax, BRL 272 million after tax. As well in provisions, we recognized an additional credit provision or loan provision of BRL 808 million gross of tax, BRL 528 million after tax. Being 60% of this amount are complimentary or generic provision for loan losses given the economic environment, while the remaining 40% was attributed to specific cases in the corporate segment. Those two events added, as I mentioned, to BRL 1.3 billion before taxes, impacted negatively the results for the mentioned BRL 800 million after tax.

On the other hand, in this quarter, we reversed non-recognized DPA, generating a net gain in fiscals results of approximately the same amount, BRL 800 million, fast offsetting the provisions I already mentioned. Being more specific, these gains were originated from deferred taxes not recorded in the balance sheet after the increase of the social contribution tax that you remember took place in September in 5 percentage points. The impact for us of all these events (12:25) net profit was zero.

Plus (12:28), excluding these adjustments, we highlight the following figures. Net interest income decreased in the quarter due to market activity which, as we previously mentioned, presents a volatile nature. But NII increased 7% in this year. Commissions showed a good performance in the quarter, being still below our ambitions on annual comparison. Considering our aims of an increase in customers linkage, commissions should accelerate over time. The result of loan loss provisions totaled BRL 9.7 billion in the full year, with an increase annually speaking, of 2.9% even in a challenging environment.

General expenses remained under control, registering annual growth of 3.4% despite the perimeter impact of both Getnet and Bonsucesso. As mentioned before, we continue to be the cost control leader in the sector. And finally, as mentioned, the net profit grew 13.2%.

Moving to slide 14, we have the net interest income which totaled BRL 29.6 billion in 2015, with an increase of 7% over the previous year and a decrease in the quarter of 3%. Two main highlights I would like to underline here. Credit revenues increased in the year, even considering the spread compression, and this is an important point. The spreads have reflected the change of mix in products and sentiments. Even with this effect, over the past five quarters, the spreads were stable at around 8.5%, as you can see in the slide, since the impact of a change in portfolio mix has been offset by the positive price movement, and this is pure management initiatives.

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The line other, which is the main reason why the NII goes down, as you can see, considers, among others, results from the bank's balance sheet, structure of interest rate gap, and revenues from customers in Treasury activities, which increased 27% in the full year in 2015. However, in the quarter, its decrease more than offset the increase in customer activities coming from two quarters, which were extraordinary high, I would say, and we mentioned this in the second point Q and third Q results, both in absolute terms and compare historically.

On slide 15, we observe that the expanded credit portfolio totaled BRL 331 billion, an increase of almost 7%, 6.6% in the year. It is true that volumes reflected the economic slowdown. However, it is noteworthy that in line with our efforts to offer a high-quality product to customers, we expanded our customer base. This allowed us to mitigate the economic recession effects in our portfolio. In fact, the Individuals loan portfolio increased 8% in 2015, driven basically by payroll loans, Consignado (15:47), that was mentioned before, and mortgages. This also reflects our derisking portfolio strategy which is reflected on the risk side of the presentation as you will see afterwards.

In consumer finance, there was a decline of 7.7% mainly explained by the slowdown in the vehicles in the auto sector. Our business model has both positioned ourselves as a sector leader, while maintained NPLs.

SMEs, the segment has been affected by the economy scenario but it has showed resilience due basically to, as we mentioned before, our distinctive model which provides, for example, in the same offer, current account in acquiring services, unique in the market. Corporate loans grew 12% in the year, supported basically by the exchange rate of movement.

On slide 16, we see our funding evolution. The customer funding reached BRL 287 billion, almost BRL 288 billion, with an increase of 14.4% compared to last year. Including assets under management and others, it increased 14.2% or BRL 515 billion.

We continue therefore presenting a solid growth on the funding side, which is one of our fundamentals for this business. We think this is basic going forward. We want to grow our client business not only through assets but also through liabilities, providing profitability gains at an appealing level of risk. The difference of growth in between the liabilities and the asset side would of course be reflected in our liquidity position, as you will see in the following slides, in the loan-to-deposit ratio.

Moving to the next slide, we have also strengthened our commissions revenues. In 2015, we reached or we've reached almost BRL 12 billion, BRL 11.9 billion, increasing 7.3%. The performance was basically or mainly driven by current account increasing 11.6%, insurance 10%, and the lending operations 10%.

Above all, we ended this year going up in terms of rhythm (18:20). In fourth Q 2015, even considering the natural seasonality of this quarter, basically all products presented positive growth in commissions. The negative variation in asset management, which is the unique there, reflects the sale of the custody business that we already announced to the market.

The increase in commissions is strategic for the bank. It diversifies revenues and brings more recurrence and stability of our results, resulting in an increase in the linkage and transactionality of our customer bases.

On slide 18, entering into the quality part of the book, we see the evolution of the nonperforming loans which undoubtedly was the biggest challenge of the year and where we had a good performance, both individually and up to the third Q quarter, which is the public information we have today, in relative terms versus peers.

Starting from the left, the 15 to 90 days overdue portfolio, however, showed an increase of 70 basis points in fourth Q 2015, fully explained by one specific fact in the corporate segment and consequently, it does not suggest a widespread worsening in this segment.

Indeed, if we exclude this individual fact, then the indicator would have been almost stable. I mean, we would have had a 4% total. The total ratio would have been 4%, and in corporate, it would have gone from 2.4% to 2.6%. Obviously, I cannot speak of names. But as we speak, the client is being regularized and fast. The leading indicator would and should come back to levels similar to the third quarter. This is the 2.6% and 4% I already mentioned. On the other hand, the 15 to 90 days overview of individuals portfolio showed a decrease over the previous quarter.

If we move to the NPLs over 90 days, it closed, as you can see, at 3.2%, 10 basis points below the previous year. This was due to a combination of our efforts that we have already and also commented in previous quarters, a credit mix more focused on low risk products, a more robust model of customer knowledge and portfolio monitoring, and an increased collection capacity.

Regarding coverage, it showed a strong increase as I mentioned in the introductory words of 19 percentage points which positions us at a very comfortable level. In general terms, we expect that the current slowdown of the economy would lead to moderate negative trends in credit quality in the following quarters as we have been stating during the past quarters.

Moving to the next slide. Loan loss provisions totaled BRL 9.7 billion in last year in 2015 with a slight increase of 2.9% over the previous year and an increase of 12.8% in the last quarter. The result of the year reflects a challenging case scenario and at the same time the confidence in our risk model. As you can see in the upper part of the slide, the credit cost was stressed by the increase in provisions in the last quarter. The increase of 30 basis points in the quarter reflects again a more robust economic environment. We continue to believe that the cost of credit will rise moderately during 2016.

On slide 20, we see the expenses evolution. As we previously mentioned, cost control is a cornerstone for Santander to grow in a sustainable way. In fact, in 2015, we maintain our cost discipline and the expenses grew less, much less than half the inflation. Expenses, as you can see there, totaled BRL 17.3 billion, an increase of 3.4%. Considering constant perimeter and a like-for-like way then if it means excluding the impacts of Getnet, our acquiring business, and Bonsucesso, our payroll joint venture, the expenses would have

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been stable in the year. This means almost zero, compared to when inflation closed to 11%.

Additionally, the rise registered in the last quarter is seasonal and is basically due to the collective bargain agreement. It is not extrapolable to next quarters. All in all, as Sergio mentioned in his (00:23:26), we closed three years, 2013, 2014, and 2015 with 15% saving in real terms against inflation. And in a like-for-like calculation, 20% real savings, I would say an outstanding delivery to our shareholders and in our way of managing to which we commit in the future.

In the next slide, we can see the operational improvement observed in 2015 that was reflected in three indicators that we consider central: the efficiency, recurrence, and return on equity. Our revenue growth was both the growth of expenses, expenses growth. The efficiency improved 100 basis points and ended below 50% at 49.8%. Recurrence or recurrence increased from 66% to 68.5%. I must say that every time that we improve this indicator, we bring to you, to the market more predictability and resilience in our results.

As a result of all these advances, the return on equity increased to 12.8%. This evolution is important, but we know that we can and we expect to go beyond. We push the increasing results in order to improve profitability and meet our shareholders' expectations, but always maintaining good solvency levels which differentiates us from the market. And this can be seen in the next slide, on the slide 22.

We may seem that we remain with a solid capital and liquidity position, stable sources of funding and adequate funding structure. The index loan to deposit reached 90.6% - 91%, improving almost 7 percentage points in the year, a comfortable position reflecting the higher growth on the liability side. In terms of capital, Brasilia Index (00:25:31) stood at 15.7%, the same level as the previous quarter. In addition to having this comfortable level, we have a Tier 1, a level 1 capital of excellent quality at 14.3%.

Now, to conclude, I would like to give the floor to Mr. Rial.

Sergio Agapito Lires Rial {BIO 1925337 <GO>}

Thank you very much. Really appreciate. So a couple of remarks looking at 2016 and also ending the year we just spoke about. First of all, focus on asset quality. So I think you can be reassured that we will remain very, and I repeat, very attentive to asset quality. The spike on the short-term NPLs, I hope it was very well explained by our CFO. Total incidental related to one case, not structural in any form or shape.

And as you can imagine, no names can be mentioned at this point in time. So asset quality is a very important one. Second, we are committed to grow profits in local currency. So I mean the year 2016 most likely as challenging as the one we just saw will still pose opportunities. Not everything is weak or bad. And the opportunities are particularly as we see also on the liability side. We have historically not paid a lot of attention to the liability side of the bank.

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And in a high interest rate environment, as the one we have in Brazil, both myself and Angel, we're going to try to look at the liability and see how we can exploit the quality of the balance sheet that we have, how we can also take advantage of being the only scalable international bank in this country, making sure that we also, besides having an undivided attention to the asset side of the balance sheet, we also start developing even a more ingrained look from a profitability point of view on the liability side. It takes less capital. It's certainly less riskier, and we certainly have the means, the products, and the people, and certainly the balance sheet to extract more value out of that part of the balance sheet.

So that's perhaps a slight nuance going forward. Costs will remain a strength. I think we are committed to keep it under inflation as we go, as we have seen over the last three years. And I think that should not change. And the other piece that I think is important is on the wholesale side, both corporates and large corporates, what I can reassure you is that capital management, it's a very important piece of how we see it, not because we don't have it but because it should be treated with the care from a profitability point of view that it deserves. So we are not expecting significant spikes in capital allocation for the wholesale side, much of the contrary. But we do expect, and I think sometimes investors don't fully appreciate the capacity to reprice, not only the new transactions as they come but also the existing portfolio.

Wholesale portfolios in Brazil have relatively short duration which tends to allow banks over time to reprice it. And I think, hopefully, more of that should happen over time even if volumes do drop as we start putting more limits around capital. So, all in all, an organization they will look on the liability side that we remain very committed to asset quality, that will, as we mentioned on our investor conference, committed to be, as far as NPLs are concerned, in line with the peers in the market and also giving you a sense of stability, consistency, because that's the other important piece in the organization.

We have a stable organization, highly engaged. We just received our engagement score levels of last year. We have an organization that is not distracted with the present macroenvironment, much to the contrary. I think Santander sees itself as a challenger. And as a player, they can actually grab quality market share from eventually public banks or even some of the private banks that can be from, time to time, distracted.

But that's not all what we do. So, I think, it's important also to end with our commitment to society. This is a country that has pretty significant social differences. And, I think, we're glad to show you an important contribution that we have done to society in Rio de Janeiro which is what we call the Museum of Tomorrow. It is the largest single investment of a private institution in culture in the country and we haven't used any tax benefits for that. So this is really out of the pocket.

On one hand, one can say, why? I think, society deserves; second, Rio, it is where we have one of our largest client base. So there are some tangible commercial benefits to our franchise, retail franchise in the city of the Olympics this year. We have also done an investment to Inhotim which is today, the world's largest open air art gallery in Minas Gerais. We have put a gallery that basically focus on the Indians of a tribe in the northern part of Brazil.

Second, still giving back to society, Santander is today the world's largest investor in university education in the world and, in the case of Brazil, having had a fundamental impact since 1996. as you can see on the slide. What we have to do here is to really, we have been able to form a very profitable segment in the universities, as you - as we call it. But we need to make - we need to probably devote more time and more brainpower to extract more value out of students as existing and future customers of our retail franchise.

So this is something that where the digital, digital world comes in hand, where branches and ATMs are important, but not as important for that sort of segment. So, more to come out of the universities and graduates, in general, in terms for us to expand our retail.

Last but not the least it's what we call (00:31:35). This is the third largest investment or program to children in the country after global and after SBT program and we're very proud of the contribution of the bank. So all in all, the company that has its role in the business society. So with that I end and I assume your name will follow. Thank you very much for attending.

Q&A

Operator

Thank you. We will now start the Q&A session for investors and analysts.

A - Luiz Felipe Taunay Ferreira {BIO 16259322 <GO>}

Hi. This is Felipe Taunay. I will start running through the questions that we'll receive in the webcast. We received various questions regarding asset quality from Guillermo Coto from BBA (00:32:32), Sau Martinelis (00:32:34) from JPMorgan, Philip Finch (00:32:36) from UBS, Tito Labasta (00:32:38) from Deutsche Bank. And I will make a summary of the questions regarding the same subject.

So, the question basically asked to elaborate on why the early delinquency has increased sharply in the corporate book in the quarter. If it is possible to share which sectors were impacted by this and if this is somehow a first signal of a wide spread deterioration in our corporate book. What is the overall delinquency outlook that we have for 2016 and if somehow, these dynamics can pose any kind of threat for our results in 2016.

A - Angel Santodomingo Martell

Thank you, Felipe. I would like to start the answering this through the question of its wider spread situation or no. The answer is clearly no. I mentioned in my presentation that first, we are, we kind of speak out of the interest as you know but we're speaking of one name. I also mentioned that the client is being regularized as we speak so our expectation, we believe that even within this same month, that leading indicator would come back to the levels I mentioned which would be stability around the total indicator around the 4% or specifically the corporate one that we are speaking. It will move from 2.4% to 2.6% that was in the quarter.

So the answer is clearly no. There is not a wide spread impact. We move this client into this 15 to 90 days. As in the same day of the presentation, the client was not regularized and as I've mentioned, it is happening right now.

In terms of outlook, I would say that we haven't changed our view. I mean obviously, the macroeconomic scenario would impact this part of both the ratios and the P&L. As you are seeing, the cost of credit is trending upwards. We see we have outperformed strongly between the last two, three years both the sector piece et cetera.

We remained today probably the best player in terms of quality. We expect to maintain that situation and move and probably with the sector or with the general strength in terms of deterioration. We see margin on deterioration or we'll be but we see marginal

But we see marginal deterioration and we expect, with that deterioration happening that 2016 results will maintain the positive tone you have seen in the past.

A - Luiz Felipe Taunay Ferreira {BIO 16259322 <GO>}

We've received one question regarding the outlook for 2016 from Philip Finch of UBS. The question is, could you please provide any color on the outlook for 2016 in terms of loan growth, margins costs (00:35:53) and asset quality.

A - Angel Santodomingo Martell

Thank you. Well, in terms of – starting through firstly through the balance sheet, I would say that, again, and speaking about the environment that we will have this year, I do know the consensus is close to a 3% GDP growth, and I mentioned in my presentation meaning already in three years a 10% drop in almost in GDP, volumes will not be as strong as in the past. We are expecting up to mid-single digit maximum, I would say. So, modest growth, negative in real terms on the asset side. That would be probably the main balanced driver.

On top of that, we will continue with our policy of improving the spreads and mitigating or trying to mitigate the change of mix that is happening. That change of mix also has driven us in a position in which the risk of the portfolio, in general terms, has provoked what I mentioned before in terms of evolution of quality and what we expect going forward.

With regards to the P&L, as you perfectly mentioned, we do not give guidance, but I can comment a little bit on some of the trends. In NII I already commented both volumes and prices.

NIM will clearly depend on the evolution of volumes. But I would expect a positive territory in general terms, and we will see the strength of that positive territory.

We are putting focus, as I mentioned, in commissions. We do have a space there and we expect to cover that space gradually during the next two three years. So, 2016 should be one of a continuation of the positive momentum we are starting to see. This is a clear reflection of linkage. This is a clear reflection of growth of clients. And this is a clear

reflection of management priorities in terms of having the right clients with the right services and the right products. So, I would expect that to perform positively.

And the other two, asset quality, I already mentioned. In terms of costs, we will continue with us. So, you mentioned we will continue with our focus on costs. That means that obviously, if you compare the next three years with the past three years, the trend should go towards inflation. But the management objective will be to maintain costs below inflation. We will see how we deliver and we can finally deliver it because, as we go forward obviously, the difficulty is higher.

We received a question from Saul Martinez, JPMorgan, regarding cost decision. The question is the Brazilian tax authorities have recently started to rule on past disputes involving good re-amortization, especially in the case of privatized companies. Some of the ruling have been unfavorable to corporates. Do you worry about the implications that these rulings may have related to the tax disputes you have with the authorities, notably involving the acquisition of Banespa.

A - Sergio Agapito Lires Rial {BIO 1925337 <GO>}

I'll take that one, Angel. I think - this is Sergio. I think it's an appropriate question relative to the environment. My answer to that is no, it doesn't worry us. I think we have a strong case. This is just part of normal course of business. There are a number of disputes on different fronts. So nothing that I would necessarily be worried at this point in time. I would let it be run through the system, through the normal process as we have seen before. So, nothing to worry as far as we are concerned.

A - Luiz Felipe Taunay Ferreira {BIO 16259322 <GO>}

We received a question from Mario Pierry from Merrill Lynch. Your free float is only 10%. What are the benefits of keeping your shares listed? Thank you.

A - Sergio Agapito Lires Rial {BIO 1925337 <GO>}

Thank you, Mario. Well, I would say, as you know, since the IPO was done, the commitment of Santander Brasil and Santander Group in general terms with the market has been the best practice in all senses. So the benefits are obvious. I mean we maintain our pro-market way of dealing with things and that involves a lot of things. That involves the information that you receive. That involves interaction with you, with the market which is I would say good and positive for both sides. It involves management, also pressure in terms of achievements, in terms of profitability, in terms of usage of capital. So I would say that there are positive on both sides, for the market and for Santander Brasil.

We maintain our commitment and we said quite clearly when the bid offer was done couple of years ago that we maintain our commitment to keep on being present, informing and having dialogue with the market. And this is what we are doing, and we are doing it because we think it is positive, as I said, to both sides.

A - Luiz Felipe Taunay Ferreira {BIO 16259322 <GO>}

Two more questions coming from Merrill Lynch. Can you be more specific on cost measures being taken? What should we expect in terms of branch closures and layoffs? And the second one is, you have a 90% payout this year. Given the weak macro environment and, thus, weak outlook for loan growth, as well as high capital ratio, what should we expect for payout in 2016?

A - Sergio Agapito Lires Rial {BIO 1925337 <GO>}

I'll take - this is Sergio, I'll take the branch network one. I think unlike some of our competitors, of course, we have 3,500 branch networks. So, scale is - we certainly have scale that we believe to be appropriate but not to a degree that is actually a disadvantage. So, where we see ourselves is actually in certain parts of Brazil, we probably need to expand some branch network particularly to the west side. The bank has now put some more emphasis on the agroindustrial side, which is a side and a segment in Brazil that continues to expand. Traditionally, Banespa, one of the acquired banks, was very strong in that segment. And I think over time, the bank has lost a little bit its roots in a segment that only really one private banking. One private bank is operating besides Banco do Brasil. So, I would expect some branch openings towards the west side of the country. And then to the rest of the network, just a normal optimization, so where - I think what you're going to see is different sizes, branches being more segmented to the spaces, becoming a lot more intelligent as we run real estate. I will say banks are in real estate, sometimes we forget. And there's quite a bit of capital deployed

to the real estate.

On the other side, I think sometimes markets are not necessarily observing this is understanding the mix between owned and rented. And I think we certainly have a number of them that are actually leased, and I think that's one of the areas that we're going to continue pursuing savings. Having a 4, 5-year, a 10-year lease agreement with Santander today is quite valuable to a number of landlords. So, there's quite a bit of still cost opportunity to continue optimizing our infrastructure as we see it.

But just to give you one example on the payout, I pass to our CFO, Angel.

A - Angel Santodomingo Martell

Thank you, Sergio. You're right, we had this payout ratio. And the reality, I would have answered this question in two ways. The first is our criteria so far, our criteria has been to optimize the usage of payout as the environment consumes less or more capital and we plan to continue in that way. So, we will - the board will decide in each of the deals and each of the moments up to what level the optimization of that payout has to do with the capital level and the generation of profits.

But that's kind of the short-term answer. No, I mean, I would like to address this in an even more - on a medium-term way which is you shouldn't manage capital ratios depending on the moment of the cycle. I would say this is a medium and long-term big error because you will always tend to give too much capital out when you are on the lower part of the

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cycle and ask for capital in the other part of the cycle specifically in this type of countries in which you tend to consume capital when the cycle is positive.

is positive. So, I would say, I would like to manage capital across the cycle. We have capital, obviously. We will optimize that usage of capital. I have mentioned in the past that, if there are opportunities, we have the duty to analyze and we are not thinking of doing them but if there are, we would analyze as we have done in the past. Our idea is to inorganically grow the franchise strongly going forward and use our capital across the cycle.

There's one piece of the question that I did not address which was related to layoffs and I don't want to give an impression that I just overlooked it. A couple of things on layoffs. I mean, one of the things that is important for me and I think for management is what I call human capital metrics. Productivity is going to be something that we're going to start pay even more attention and start measuring. And what do I mean by that. So, for example, when you look at our consumer finance company, we have the leading finance company in the country. And many - in some of the activities that are today performed by the bank can certainly be performed differently as we embark on a more digital space. So, we have the leading car finance or car website which is (00:46:27) in the country. So we are looking at different ways through different partners. In this case, Accenture, for example, how can we actually provide a better experience, be faster, be better at what we do in car finance throughout the country so that we can actually secure that leadership? That will go through redesign and improving the way we handle processes.

So, productivity is what is going to lead into sometimes rationing off individuals and infrastructure but not related to what I would call the classic branch infrastructure. That's not what's leading us. And at the same time, I'd like to mention that I think we're paying a lot of attention to the quality and skill set of our people. We're glad to announce that this year our people on the back of the BRL 6.2 billion (00:47:17) dividend yield and the earnings that also included extraordinary. We're going to have one of the highest profit-sharing programs paid to our employees in the retail franchise, which I think it is really fundamental in an environment where people are not even thinking about getting variable comp significantly higher than they have seen in the past, which if it's well-managed and well-communicated can actually create the right environment for a highly-focused and energized organization for 2016 which we'll definitely need.

Operator

We will now start a Q&A session for investors and analysts by phone. Our first question comes from Eduardo Nishu from Banco Plural (00:49:08).

Hi. Good morning. Thank you for taking my question. In 2015, if you look at the level provisions and including the one-offs, you had an increase of almost 24% of the allowance for loan losses. Just wondering, what is the 40 points - what would be the outlook for that, for probably allowance for loan losses if you can give us some color how you see that evolving in 2016, appreciate it. And my second question is on your managerial accounts. You had an adjustment for allowance for loan losses of BRL 809 million and a NII of BRL 417 million. Just wondering the origin of those adjustments. I assume that perhaps

some of these may be in the third quarter. Wondering if you have further adjustment this quarter one-off gains that you offset with those (00:50:19). Thank you.

A - Angel Santodomingo Martell

Nishu (00:50:22), since you are asking about details, about very detailed things, I think it's better that we talk afterwards offline and we can go through all the details that you're posing, okay?

Q - Operator

Okay.

[Operator Instruction] Our next question comes from Victor Galliano from Barclays.

Q - Victor Galliano {BIO 1517713 <GO>}

Hello, thank you for the call. Yeah. A couple of questions from me. First on NII, and looking at that breakdown that you gave us on page 14. So, talking about the other segment that if you see that and you expect that to normalize, then should we expect that to come down into the level of much more as it was in 2014, where you saw a contribution there of about €5.2 billion, €5.3 billion? That's my first question.

My second one is I'm afraid we're turning to the issue of asset quality. And just looking at the E2H portfolio, and obviously that has increased sharply in Q4. By my calculations, it's now back up at over 7% total loans. Would you expect this to reverse in the coming quarter with the one that big corporates that you've got going into the 15 to 90-day NPLs? That's my second question.

And what do you think is a reasonable level of coverage of your E2H portfolio going forward? Thank you.

A - Angel Santodomingo Martell

Thank you. With regard to the first question, in terms of NII, I mean you have seen in the historical CDs, I mean the part that is what we call order, which is basically the nonclient activities tend to be volatile. So, I would say that the cost to come back to historic levels, I will say that will depend on a quarterly basis. It tends to generate around 20% of the total NII. But that's kind of a rule of thumb that could vary as we have seen in the last three, four quarters.

I would underline probably here the other way around which is if you see the credit, the loan part of the NII continues to trend positively. In the last five quarters or four quarters, it has turned positively. Our aim is to maintain that trend. And as was mentioned also to improve the liability side of it. And we will manage with the volatility of the markets trending and I mentioned also that we expect positive territory for NII. So that means that we should or we will strive to achieve a positive evolution on total NII.

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With regards to credit quality, you're right. The increase in that portfolio in the E part is the name that we have been speaking and that has (00:54:00) that 15 to 90 days increase. The normal thing would be that that name goes into what we could call the normal part of the e-rating which these companies that are performing. And this is what I was mentioning when I said, as we speak, it's been resolved and regularized.

So I will say the total amount would not move but what we will see is within that classification, that amount being classified as normal and this is what we are currently managing and seeing if we find a solution or we do not find that solution. So, I will say, the answer would be, no, the total amount would not change, you would say the breakdown.

Q - Victor Galliano {BIO 1517713 <GO>}

Okay. And in terms of coverage, what do you foresee the versus the E2H to each portfolio? Would you expect that to trend back up north of 90%?

A - Angel Santodomingo Martell

That depends always on the situation. In these type of cases, that depends on the situation of each of the companies, the internal rating that we assign in our knowledge because as you can imagine, this type of companies and information is detailed and analyzed by our risk department. So, it totally depends on that type of analysis.

And as you can see, because you have there the percentages that we published, they vary obviously, and they increased. I'm not going to give you a number, a specific number, because as I mentioned, the process is on its way. But you can see the general coverage ratios that we have by letter in the public information.

Q - Victor Galliano {BIO 1517713 <GO>}

Okay. Thanks, Angel.

Operator

Thank you. The Q&A session is over, and I wish to hand over to Mr. Sergio Rial for his closing remarks.

A - Sergio Agapito Lires Rial {BIO 1925337 <GO>}

Nothing, not a lot more to add, just to thank you. I mean, I really appreciate the time, and we continue working for keeping the same trend that I think you have seen over the last two years of the bank. Hopefully, 2016 will be better than 2015 as 2015 was better than 2014. That's what we're going to try to do for you. Thank you very much.

Operator

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

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