Y 2019 Earnings Call

Company Participants

- Andre Parisi, Head of Investor Relations
- Angel Santodomingo Martell, Chief Financial Officer, Executive Vice President, Investor Relations Officer & Member of the Board of Executive Officers
- Sergio Agapito Lires Rial, Vice Chairman, Chief Executive Officer & Member of the Board of Executive Officers
- Unidentified Speaker

Other Participants

- Analyst
- Eduardo Rosman
- Jorg Friedemann
- Victor Schabbel

Presentation

Operator

Good morning, and thank you for waiting. Welcome to the conference call to discuss Banco Santander Brasil SA Results. Present here our Mr.Sergio Rial, Chief Executive Officer, Mr.Angel Santodomingo, Executive Vice President, Chief Financial Officer; and Mr.Andre Parisi, Head of Investor Relations. All the participants will be in listen-only mode during the presentation, after which we will begin the question-and-answer session when 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/ri, where the presentation is also available for download. We would like to inform that question received via webcast will have answering priority. (Operator Instructions)

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

I will now pass the word to Mr.Andre Parisi. Please, Mr.Parisi, you may proceed.

Andre Parisi {BIO 21511610 <GO>}

Good morning, everyone. It's my pleasure to welcome you to our earnings conference call. Once again, in 2019 we had important achievements, which will be presented today by our CFO -- CEO Mr.Sergio Rial as well as our positioning to the year ahead. Then our CFO. Mr.Angel Santodomingo will provide more details on our fourth quarter and full-year results.

Now, I'd like to turn it over to Mr.Sergio Rial.

Sergio Agapito Lires Rial {BIO 1925337 <GO>}

Thank you, Andre. Thank you everyone for attending our release. So this is the fourth year of continued growth, profitable growth as you have seen now with the ending of last year. Some of the interesting drivers have basically been capped, one is, our credit portfolio and particularly also our risk models have proven to be well managed and we're going to explore that little bit more.

Highly engaged people, we continue to be a story of transformation. We tend to reject tags of banks or non-banks. We believe we are in a sort of a process where at the end everything will converage and we're going to be seeing the beginning of new financial platforms, financial services platforms. And we think and at least we try and work each and every day to position ourselves to be on the leading front in terms of being first, being ahead and as much as possible anticipate possible trends.

And I think we done some of that over the last four years, we've done that in the agro business, we've done that in the real estate business, when people were not necessarily paying attention on the back of uncertainties around macro and we certainly have done that also in the consumer finance space. And I think the year of '19 sort of consolidate some of the particular choices we made not all of them necessarily consensus driven, but particular choices we made that proved to be correct.

So on Slide 10, it's the summary where we basically ended, we ended with the net profit or BRL14.6 billion an important growth on a year-to-year basis as you can see very important indicator as far as ROE, so we were able to go above 21% -- 21.3%, you probably remember our three-year targets. We have also been able to basically comply and fulfill a promise around efficiency. So we have posted a challenging efficiency ratio, you probably remember our guidance as far as efficiency is around 38 and we'll continue as you see continue to pay attention on the revenue side.

I did mention Slide 10, but I may have made a mistake on the number because that's certainly someone is signaling here to me. So, we are talking about Slide 5. So, apologize for indicating the wrong number of the slide. So, we are on Slide 5.

Now, moving to Slide 6. What we have here, it's sort of a snapshot where we were, so good performance of the stock last year, 21%, good strong we have also -- and we are also very proud of being able to post the highest dividend we have ever done in the country for Santander Brasil $10.8 billion providing giving an interesting and appropriate yield. Let me -- this is more than just a very concrete signal that shareholders we care about them, we take -- we give money back when we feel our capital ratios as is in the case today are adequate. So, I think it's been a very good balance over the last four years of appropriate both dividend payout, but yet paying attention to our capital ratio that certainly allows us to continue to grow as we have done over the last couple of years.

On Slide 7. Now moving to what I would call our culture and our people, very important. I mean, I have been a very strong voice on the importance of transforming the human capital before you can even talk about technology. And I think Santander Brasil has been at least a challenging and intriguing story of what people would normally call a legacy bank to transform itself not only in terms of engagement as you can see 92 is best-in-class no matter, which geography you would be paying attention to, but also in terms of velocity propensity to take intelligent risks and creating a human capital fabric that we have not seen necessarily in the more classic large universal banks.

So you can see also a very important component of our culture which is continuous learning. I'm a big believer that learning companies that are very adaptable, but that take very seriously continuous learning, it's an important combination for us to continue transforming ourselves and being as much as possible ahead of the curve.

On diversity we've made bold moves, we are very proud to basically realign without necessarily touching on meritocracy. Diversity for us, besides the right thing to be done has a very important component with our business model. So, we've made a number of things. We are now in this year bringing a number of foreigners into Santander Brasil, we're actually recruiting overseas, so English will be more and more heard in the elevators of the company. So English has to become more of a common fluid lingua franca inside of Santander Brasil not because we're the international bank because that's where the world is. And I think that's all part, what I would call a diversity agenda.

Happy to mention we're 25% of our population are black or black descent, we're very proud of it, and we are certainly moving on female leadership now at 26%. We are proud to have three Board members who are female. We take that seriously not because they're female because they're bright and on top of that they have a phenomenal career as female executives either in the past or still in the case.

On Slide -- on the next slide, we have the client I mentioned, what I would pay attention is the correlation that exists around growth on active customers, but also growth on loyal customers. So, there's a very close correlation which shows that the traction and the engine in terms of customer acquisition seems to be going in the right direction.

NPS we are proud, we pay attention, we have not yet exceeded 60. That was something we were looking at, so we're not there yet, so quite a bit of work. So we'll certainly make sure that that's going to be the case we will continue to work in that direction. So proud to announce 26 million customers and many of them hopefully with the 56 indication moderately happy with the bank, but more importantly also we still able to generate customer base with profitability.

On the next slide, which is the Slide 9. We're now moving to the quadrant, which I will talk about society. And I think a number of things we are very proud. I mean we were basically awarded by the Fortune -- U.S. Fortune magazine as one of the very few companies that is transforming the world and it's a big statement, but it basically grounds the effort around building a very significant microfinance platform in the country. We have reached over 500,000 customers as you have seen here on the slide. We are aiming actually to reach a million. That's our guidance as far as the next three years, but our ambition is a lot bolder than that.

Brazil is fundamentally being -- I mean the success of Brazil not only, but part of the success of Brazil of an operation in Brazil is to be able to crack the code of the base of the pyramid. And I think what the microfinance operation or business model is actually helping us is to be more effective in handling, doing, expanding in a phenomenal and really interesting country, that is Brazil. Brazil is not -- it's a society of 80% plus urbanized. But even with that level of urbanization, there are many significant extracts, which are today not really being attended on a recurrent basis by financial platforms.

Very, very important signal this year, we have aligned or at least we have called all the employees on a voluntary basis to donate 1% of their variable comp to any cause they consider to be an important cause for themselves. So everyone can choose whatever they want, again it's voluntary, but we are basically stealing a sort of an important culture to give back, and I think this is an important piece. And it is not just to give the money, it is to think about where the money should go take ownership of different causes in the Brazilian society and make a difference.

So in the case of Amigo de Valor, which is the program which has been in place many-many years, we're basically supporting 65 social projects of all kinds of different nature and we have basically raised very close to BRL20 million year-on-year. So that's a growth of 39% when you compared to last year, and I think it is important to mention I would like to honor the volunteers of Santander there we have, we have seen 83,000 participations of Santander employees in all kinds of different events, most of them certainly related to some level of either environmental or social component.

Moving on, still on the business side. I think you have seen on the first slide the growth that we have been able to do it in terms of quota, market share, and credit. We're not particularly pursuing market share target, but it's a reflection of where we are going. And here I think you have -- you can see significant stakes and growth year-on-year on a variety of products, I mean in the real estate the mortgage finance, we started about three years ago, pretty much ahead. We were the first ones to basically bring rates to single-digit.

On the right side, we have a number of new businesses. Some of those businesses are going to become significant in my view. Santander Auto, the partnership with our friends from HDI, we are looking at being able to underwrite over 100,000 insurance policies for cars this year. So this is a business that if it's well-developed and well run, it can be in the billion category from an enterprise value point of view. We have launched BEN, our food voucher, growing, should be able to get into minor profitability range this year already. This is in existence for less than a year now. And in the wholesale side corporate investment bank, we're proud to be number one in M&A in project finance and FX. In M&A in particular a lot to do with having worked on the number of very significant sale mandates last year.

Moving to the next one, which is obsession around efficiency productivity. And those are very small examples of what we are doing, it's difficult to depict in one slide what we are doing, but for example when you look at just straight current accounts, we -- in many, many processes in particular significant processes when you're dealing with 26 million customers, there is so much waste in the design in the deal flow and this is just trying to show you that from the historic level of rework that we had for opening onboarding a customer, we have been able to reduce dramatically rework that at the end only triggers additional cost, inefficiencies and all kinds of waste of time. So here it is just a small example of our commitment to really bring our efficiency level to the 38th target in the year 2022.

So, I would summarize, very solid year, growth component to permeating most of what we did. Significant gains of market share in a number of fronts. In organization, both potentially, the best efficiency ratio of the entire industry in Brazil, which is not a minor because we only have very, very good competitors in every dimension.

And with that, I'll pass the word to the CFO, Angel Santodomingo to start basically talking about the group and take us forward. Thank you. Angel?

Angel Santodomingo Martell

Thank you. Sergio. Good morning, everybody. Let me start in the Slide 13 with the groups that were already presented by the group as we always do. As you know our results the net profit presented by the group totaled -- a little bit more than EUR8 billion, but are still weighted 28% on those results from the full-year with a breakdown of approx 47% Europe, 53% what we would call America divided in between 37 and 16 between South and North America respectively, sound results and diversified.

Moving to our domestic situation and especially on the macro side, we summarize there what are our views on the economic front here. Our expectation is that this year 2020 will be a year with the controlled inflation, low interest rates and higher growth. This growth will be materialized gradually through all the quarters. In fact, we expect moving from weaker to stronger quarters as this year goes on. This situation will also be supported by the structural reforms agenda fiscal policy and other political initiatives that could offset somehow the expected volatility both domestic and international that we are in. We have an -- in any case we have an optimistic view of how the economy will evolve since the country's fundamentals are improving and remain solid.

Going into a specifically what we -- what are the results in a Slide 16 -- 17 sorry. With regards to our 2019 net income it reached BRL14.6 billion, it's still growing at a good pace of 17% in the year. Compared to 2016 that is three years ago, our America net income has doubled. This performance is a consequence of the key pillars that define our study in that, you can see there on the slide.

So including constant expansion of our customer base, it's already 55 consecutive months in a row that we have been growing our clients, leading to a robust and sustainable growth, accurate risk models and discipline cost control efforts. We have our clear agenda focused on promoting lean growth and productivity gains that have been already commented by Sergio, which should provoke further increases both in P&L and net income going forward.

On Slide 18, we present the main lines of our results about which I will go into a little bit more detail later on. Let me share with you my initial thoughts. On the revenue front, NII increased almost 5% relative to 3Q while in the full-year it rose 6.4% with a consistent performance in all of its components. Fees advanced 1.5% in the quarter and 8% in the year. Here our customer base expansion that I was mentioning in greater transaction already played a critical role in maintaining our fee growth at a healthy level.

On the expense side, provisions remained under control, declining 7% in the quarter and staying flat in the year. This performance reflects the continuous solvency of our risk models of (inaudible) already for some years. General expenses also remain under control, even though expenses were slightly higher than inflation for the year, they remain below revenue growth fast improving efficiency. Seasonality explains the quarterly performance.

On Slide 19, you may see our NII concrete evaluation, which totaled almost BRL47 billion in 2019 increasing 6% in the year. Highlights are loan in NII remain virtually flat in the quarter due to a more balanced growth in between corporation retail, confirming that what I have commented in past quarters in a specifically during our Investor Day, which is that the change of mix will be milder in the future. In the full-year, loan in NII climbed more than 8%.

Revenues from funding continued expansion process and grew 2.6% Q-on-Q, even though the SELIC rate fell to its lowest level, as you know. On a yearly comparison it increased 11% relative to 2018. Here our good volume and price control policies have been key.

Finally, the others concept posted a strong result in 4Q with a prop task delivering better figures when compared to previous quarter. In any way in the yearly comparison this line was stable.

Moving to the next slide, we can see how our loan portfolio and growth has accelerated, rising 6% in the quarter and 15% in the year, totaling BRL352 billion. We continued to grow in a controlled and solid way. Analyzing by segment SME and corporate portfolios have been -- have gained velocity (inaudible).

Main points are individuals maintain a good expansion pays increasing 5% in the quarter and 17% in the year, led by payroll loans, mortgages and credit cards. Consumer finance kept it -- kept its solid trend and grew 16% leveraging from our full auto ecosystem. The SME portfolio recorded further expansion based in between others in a substantial improvement in our customer interface. We are already growing at 15% revenue yearly terms.

Finally, the corporate loan book following several quarters of a weak evolution delivered a positive performance. It expanded 8% in Q-on-Q and 12% year-on-year. We believe it is too early to say that this is a trend for 2020. All in all, we have finished 2019 with better growth trends than our at the beginning of the year.

On the Slide 25 you may see how our funding increased on both quarterly and yearly basis. All its components performed, well positively except for the most expensive instrument, financial bills, Letras Financeiras. This dynamic is in line with our strategy of optimizing our funding costs that they have been steady in already for four years now and volume at levels that support our loan growth volume.

Moving on to fees, they totaled almost BRL19 billion in 2019 growing 8% in the year. Highlights in the period where current account, insurance and wholesale banking. Cards went up 6% partial impacted by a much tougher competitive landscape through 2019 in the acquiring business, but at the same time indicating that issuer activity dynamics remain sound.

On the next slide asset quality maintains a very positive evolution. The yearly arrears ratio kept its declining trend and reached 3.9%, the best level seems our IPO that is the best level in the last ten years. Within these yearly arrears, the individual segment delivered and improvement of 50 basis points in the quarter. The corporate segment posted a slight deterioration, but it is still remains at a very comfortable level.

The over 90 day NPL also improved in the quarter, both segments individuals and corporate, recorded good figures falling 10 and 20 basis points respectively. And finally coverage ratio, we have -- here I have to detail that we have used the one-off tax credit gain to reinforce our balance sheet, anticipating the IFRS 9 implementation in the country, I will elaborate on this effect further on in any case. As a result, the coverage ratio increased to 209% which in our view is again a comfortable level.

On Slide 24, you can see that loan loss provisions were kept under control. Thanks to the improvement in the loan book asset quality. As a result, our cost of credit reached 2.7%. In the full-year comparison provisioning expenses remained flat against 2018, while at the same time, as you show and as I mentioned, the loan portfolio increased 15%, plus the cost of credit came as low as 3%.

Next slide, we show -- we see how our expenses have trended in the period. Expenses perform well in the 4Q when compared to 4Q '18, growing only 3% while the quarterly figure is explained by seasonality. Overall, in 2019, expenses went up by 4.8%, below our revenue growth of 6.8% and around 4.3% of inflation, resulting in a better efficiency ratio due to our operating leverage. In 2020, we seek to further intensify our focus on improving our productivity has been already said. As we see it as a key to maintain profitability at healthy levels. Moreover, our commented agenda on industrializing and non-industrialized sector in this regards remains even stronger than before.

Moving to on two indicators, they showed our good evolution last year compared to 2018. Efficiency was 80 bps better, recurrence ratio reached 88%. And as mentioned before, thanks to all these advances return on equity reached 21.3%. I must say that on an annual basis, we are at historical levels in both or in the three ratios that I mentioned return on equity, efficiency, and recurrence ratios for the quarter.

Looking at capital and liquidity, we closed the year on a solid point with comfortable ratios even after we paid BRL7.8 billion dividends in 4Q. We see our capital at a comfortable level to support our growth. Before moving on to the final remarks, I would like to share with you what I've mentioned, the slide we mentioned in the past slide that as you know taxes on net income with -- what it is called the local CSLL rate applicable two banks will increase from 15% to 20%, so a total of from 40% to 45%, beginning next March 1st, with this we have reevaluated our DTAs, our Deferred Tax Assets, which generated a one-time net tax credit gain of BRL2.7 billion, which we have offset by strengthening our balance sheet with extraordinary provisioning for loan losses anticipating the IFRS 9, I mentioned implementation in Brazil and for an efficiency fund in between others.

So moving to my final remarks to conclude the presentation, I would like to underscore the following three points. Revenues increased 7% in the year maintaining our growth history. Asset quality figures provide evidence that NPL quality is under control. And efficiency remains a key strategic pillar for Santander Brasil. These features were fundamental to our 17 net income growth in 2019 and 21.3% return on equity for the year, which as I said is a historical maximum, since we were quoted. In our view, our numbers further confirm that we're on the right track to keep delivering solid and sustainable results.

I thank you everyone for attention and now we are available to answer your questions.

Questions And Answers

Operator

(Question And Answer)

A - Unidentified Speaker

Okay. Moving on as Mr.Rial said, we are opening the Q&A session. We're going to start with the questions received via webcast. First question is from Tito Labarta, Goldman Sachs. Do you think you can maintain ROE at 21% this year, given the headwinds of the capital overdraft rates and higher tax rate?

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

This is Sergio. Thanks for the question.

I think, the same question somehow also came when we had basically indicated our three-year goal for ROE, because of a completely different inflection point that we are seeing in the present financial system. I think we're -- what I think I basically position the organizations that we will continue to be highly focused organization or return on equity. And I also believe we are in the beginning of that journey. I mean, we've done quite a bit of the last four years. It's important to also perhaps acknowledge, I have -- if things go the way they look, they might be going from a macro point of view, cost of equity in Brazil should decline structurally. But one has to remember that we have passed a very important fiscal law on the pension reform, but we are not yet with a country that it's balanced from a fiscal point of view. So, there's quite a bit of work to still to happen.

So all in all, I don't see -- although I see pressure on margins and spreads, at this point in time, my read for the marketplace would be perhaps increased potentially funding costs. But also on the asset side, the industry will probably look and re balance its spreads. I would see in some products, I could see it spreads moving up as Brazil gets realigned. So, I'm not yet concerned as far as the first quarter.

Now asset quality, I was particularly concerned last year on individuals. I still remain on alert, I think there's quite a bit of new entry companies, agents providing credit. So, I think we need to be very diligent that we don't have a situation of ferocious competition and basically reducing debilitating cost of credit and risk parameters. So, we have been able to do a good job last year. But that will be still very much at the top of our agenda.

Can cost of risk come down? I think in certain products, yes, I think, yes. Overall, I'm not so sure yet, it's too early to say. Indications should -- indications -- early indications should tell us that we could see some more benign performance on the cost of credit, particularly in the first half of 2020, but it's too early days.

A - Unidentified Speaker

Next question from Tiago Batista UBS. Loan growth achieved 15% in 2019, and 4Q '19 showed a good surprise, especially in the corporate loan. Is this a level mid-teens that we can see in 2020?

A - Angel Santodomingo Martell

Thanks, Tiago. Well, as you know, we have elaborated during some time now on volume, volume evolution and how we see these things and we discuss these also as you remember on our Investor day. Basically, what we saw was that the change of mix that at that time -- during the last couple of years has been in strong change of mix as you know, in between retail individuals, and what we would call corporate -- large corporates, and even SMEs at some point, we thought and we see looking forward that it should kind of equalize or close that gap in between growth, growth rates.

We go back just three four quarters, we were growing about 20% on individuals and flat or negative in corporates and large corporates. That has been -- that gap has been closing, as you see, in this quarter. I wouldn't extrapolate it, but in this quarter, we already see an equalization of growth rates in between different segments.

How these will -- how does this look forward? First in terms of volume, what I would say is that this is a country that should trend to have a nominal GDP growth of around, I don't know, 6%, 7%, 8% depending on inflation also, which leads to volume growth in the high single low double. Today, the country is growing at 6% within strong change of mix in between public and private banks.

The banking debt is 48% of GDP, so absolutely in reasonable levels and with capacity to increase that leverage further to, I would say, in between 60% to 70%. So, space to leverage the country -- and now what has to come is growth. When growth comes more intense, we are already in a growth mode, but when it comes more intense, investment plans will come once that industrial capacity that is today available is partially used both on the unemployment side and on the industrial side. So, I would say this will be our -- it's basically what we said also in the Investors Day that volume will keep on growing and closing those gaps in between segments.

A - Unidentified Speaker

Next question from Marcos Sim, Itau BBA. On efficiency ratio, could we have a positive surprise on reaching the 38% target level before 2022?

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

Marcos, hi. Good morning. Thanks for the question.

I hope so. We are working towards that, I mean 22 is not a goal in itself; the goal is -- but it's going to be a function of how fast and how smartly are we going to be able to continue to transform ourselves. Today, I made the earnings release internally and I was using an anecdotal picture of -- we have collected over 2,000 carimbos and those, who are Portuguese speaking know what that is, stamps that used to be used by banks in the past with one's name and eventually the title.

So, the real challenge is going to be how willing is the Santander Brasil culture in its human capital to continue to be at the forefront of transformation. My guess is that we're going to be on the forefront. I think there's quite a bit of from a cultural perspective, I think the people here -- we are hunters, we go after business, we're getting smarter in the way we hunt. We are also, I think, learning in the way we manage risks not only credit operational market a variety of risks. So, I would make but again, I'm not the most objective one. I'll make a bet that we will remain paying quite a bit of attention and efficiency ratio and that could happen before.

And then you had a second question, which I'm going to just accelerate, which is around decline in spreads to be compensated by stronger volumes. I think I'm -- I think, we're going to see a decline in spreads in the early days of the year. I'm not totally convinced. I'm talking spreads that spreads will continue to decline. I think we're going to see a reallocation of funding flows. I think funding will probably structurally become more expensive.

So I think, people will be pricing a lot more smartly than I think we have seen in the past years. There's still a lot of tendency to price product, but I think we have to start learning very fast how to price customers, duration, liquidity, which was something that wasn't in place a number of years ago, and it will become more important as we think. On the corporate segment, we are seeing a pickup in particularly in the small and medium segment, more than on the large. So, I think the recent pick up that you saw in the fourth quarter should be a good indication at least for the first half of the year. I think I do expect that to accelerate in the first half of 2020.

A - Unidentified Speaker

Next question is from Brita Schmidt of Autonomous. Can you please elaborate on the fee development in the quarter? What were the main drivers behind the asset management decline? And are you seeing increased price competition in this segment?

A - Angel Santodomingo Martell

Thank you, Brita. As you probably -- as you have seen on the slide, what we have is an 8% growth on 12 months in a decline on the quarter. The decline on the quarter is absolutely what I will call a technical thing, which is -- has to do -- there you have two concepts; you have the asset management activity and what we call the consorcio activity, which is on a specific product being sold here, which is kind of a saving product that people use to buy assets in the future, right? And it generates fees.

Okay, this is in between quarter kind of adjustments that you have because of the number of days basically, and because if the month ends, in a weekend those fees goes into the P&L of the activity on a Monday, is a CCNS, as simple as what I'm saying to you. So, if you show up good growth in 3Q against 2nd Q and now that good growth is playing the other way around in 4Q as I said as a simple as what I'm saying.

The important thing is that on the annual view, we are growing 8% and it's both a strong in both activities that I mentioned, okay? In general terms, fees continue to grow in the high single digit. Obviously transaction will be transaction -- transactionality will be important looking forward for this line, but as has been mentioned, I mean we are still see and we expect to continue to see and a strong inflow of clients, both active clients and linked clients or royal clients and that means that at the end of the day transactionality and fees.

A - Unidentified Speaker

Next question Yuri Fernandez, JP Morgan. Can you please comment on Getnet volume growth of recovery? It was up 18% Q-on-Q, which it seems to point to market share gains; which segment drove this growth? How are you seeing competition?

A - Angel Santodomingo Martell

Thank you, Yuri. Well, we have commented Getnet; what is our strategy. And I mean, it's paying off. At the end of the day, this is a sector and this is an activity that as we all know has been under intense competitive forces. We have always said that our strategy was not sized that was positioning ourselves in a profitable way gaining market share, but in a profitable way.

We have triggered different innovations, let me call it like that in the sector with the -- plus 2% that we already commented in the last quarter or the small POS, I mean, I don't want to elaborate again on all this, because -- but Getnet is part of our offer; that's an important point. It's another product; also, it's another company, another activity et cetera. And if you see what is happening in terms of turnover and transactions, turnover is growing 11% while transactions are growing 16%, which means that we are more capable, we are more active per turnover. So, I would say that the strategy has not changed. This is a structure of the strategy of the group and we will continue obviously moving into in innovation mood as we speak.

Operator

The floor is now open for questions. (Operator Instructions) Our first question comes from Itau Finelli, Credit Suisse.

Q - Analyst

Thanks for taking my question. I wanted to ask about the spread decline that we find in the quarter. Obviously, the volume growth has -- large corporate is negative for the mix. But I wanted to understand a little better if you're not -- it was not only an effect of the mix, but if you're seeing some pressure on a line by line basis? Thank you.

A - Unidentified Speaker

Thank you. The spread that you saw on the asset side on this quarter has to do with that mixed effect that I was mentioning before. At the end of the day, in past quarters, as you know we have -- I mentioned it, we have had stronger growth coming from individuals and coming from the retail side. This growth has leveled, and when it levels, you do not have that offsetting capacity or effect on the spread.

So, it remains what we have said, the spreads on the asset side somehow with -- depending on the product, depending on the segment, but with some pressure on the funding side the other way around, we have been able to improve or to increase our spread as usual on the same as -- even with as I mentioned with SELIC that these are historical minimums. But I mean it has to do with mix and reality of the NIMs on the asset side that I have mentioned this for some quarters already, you know that. We expect them to be at least temporarily with some pressure.

Operator

Our next question comes from Eduardo Rosman, BTG.

Q - Eduardo Rosman {BIO 16314825 <GO>}

Hi everyone. I want to ask two questions. Actually, about two statements that Sergio made during the Investor Day, right? I think that the first one is, if I remember -- I think Sergio, you mentioned that banks they need to move from, say, all you can eat to a menu type offer, right? So, pricing decline well, increased customization. So -- but my question is I think that Santander historically, not just in Brasil, but across the globe, Santander did several positions, right? So, I would assume you have a lot of legacy, so how to do that? Clearly, we can see that the mindset of the bank has been the correct one, focusing a lot on NPS and the quality of service, but I wanted to know how if you believe -- you are ahead of the other ones right? This would be the first question.

And the second question would be with regards the regulator. I think that Sergio mentioned that he believed that the regulator central bank would go more, let's say, on auto regulation, right, conversation with the banks and we saw these cap on the overdraft, right? So, I want to know if the bank believe that these changed from now on, it's natural and we should see -- a regulated that will do more kind of adjustments like that or if the bank continues to believe that it's going to be done more through auto regulation and that these can be seen more as a one off. Thank you very much.

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

Hey, Eduardo. Thanks for the question. Let's go with the first one. I think the biggest challenge today for companies of our size, that size here matters is how you're going to be really be managing data. Lots of people talk about data and that does not necessarily converse with profitability. So, if you take for example a company of our size, I'm going to give you a concrete examples. We are basically migrating around 20,000 customers each and every month from our consumer finance to the more classic banking product. Until very recently, the same customer was being checked by the fraud group of the consumer finance and the fraud group of the bank as if that would be necessary.

So, what happens is today the challenge of cross-sell and the challenge to extract better pricing intelligence is actually around deconstructing sells that also sometimes see themselves as -- with a unique role. Of course, that has changed in the meantime, because even the people within risk said, wait a minute, if this has been checked for the consumer finance fraud team, why do we need to do it again? That's the sort of attitude. If I do not create a culture where people are having that attitude naturally, the risk of making it convoluted is very, very high.

Second point, the Chief Data Officer of Santander Brasil is a critical function. We're actually talking more and more about that function. Why is that? Everyone is going to what is normally known as data lakes, which is repositories of data and basically de-constructing what I would call the vertical organizational charts from a data point of view. Each area in the bank controls or deals with certain data pockets. The moment that you put all that data in a collective space, the real challenge will be how do you extract value out of that data? That's one. How do you stop doing queries and extracting value around customers from the past, how you're going to able to actually mine that data lake much beyond your own product.

So, the whole governance around extracting value out of large depositories of data is going to be key for an organization like ourselves. If we can crack that code, I personally believe from a pricing strategy point of view, we're going to be ahead, which means in some cases we're going to be far more competitive than the rest of the market, and some cases not necessarily. We have seen that in practice in the consumer finance company. One of the reasons why we were able to jump start out of finance is that we became incredibly more smart in the way we were pricing customers. So, I have -- the challenges how I bring that now to 26 million customers, not an easy -- not an easy task, but that's what it is.

Second part, Central Bank; it's less about the Central Bank, it's really about the consumer. Well, I mean, the consumer already made that decision. If they don't see value, if we're not able to articulate well value, everything is up for grants. So, I think, what I tell here is It's over, it's really over. We're going to have to earn and fight for each and every day inside of this organization to instill a culture that we want to retain customers.

I encourage you and today, I use that as an earnings release discussion around the example of Amazon and Best Buy, because everybody was basically betting that Best Buy would disappear in the U.S. for reasons that we already know, particularly, the physical channel and all the rest that comes with the physical channel and everything now, it's Amazon. And as a matter of fact, Best Buy did two very smart things; one, they created the so-called -- what is square team? If I'm not wrong, the expression, which was basically groups of people consultants that would take care of your technology life. Your cell is not working, you go there and you get fixed. Your computer is not working, you get a new computer and you understand why your needs and what kind of computer would suit your needs. Then the second piece what they did very well is that they became an open space for any brand.

The third piece was very much around customer centricity. Everybody talks about it, very few people have been able to do it. We are trying. We are far from it, but we are obsessed that the experience of anyone with Santander will be on average significantly better than any other place and we believe that drives premium. That's the short answer. And I think Best Buy and Amazon, it's an interesting example of violent transformation on the e-commerce space and a physical classic company that still exists despite the strength and the power of Amazon.

Operator

Our next question comes from Jorg Friedemann from Citibank.

Q - Jorg Friedemann {BIO 15405752 <GO>}

Hi, thank you for the opportunity. I was looking into the evolution of common equity Tier 1. And even after paying strong dividends this year, you were able to come up with very similar number compared to the fourth quarter of 2018. So, just wondering if you believe that you can keep the payout at levels above 70% of historically or if the convergence towards lower levels could start to take place already in 2020. Thank you.

A - Angel Santodomingo Martell

Thank you, Jorg. The level of -- this is a kind of a triangle as you know that we always comment in terms of capital level growth risk-weighted assets and pay out. We have always said -- I mean we are currently at 13% core equity Tier 1 approx. We have always said that we feel capital levels should be around 12%-plus, 12%-12.5%, somewhere around there; that gives us enough space to grow, given the amount of profits that we are generating and to cover our needs in terms of -- marginal needs in terms of capital. So, I would maintain that speech.

In terms of payout, we paid in a extraordinary dividend, I mean, extraordinary. We increased the total dividend in 4Q both due to the -- to these levels of capital and what I was mentioning in terms of extraordinary profits et cetera. But at the end of the day, the formula is going to be capital level and risk-weighted assets growth. My estimation is that we will have risk-weighted assets grow in the area of high single low double for the next years, probably accelerating given the macro economic scenario we mentioned. That means that with return on equity above 20%, 21% that the ones that we are having, you are leading to a 50% payout ratio. That 50% payout ratio continues to be our guideline. So, this is our reference, but obviously as we made last year depending on the capital evolution and how we use that capital, we will adjust considering the end game, which is the capital ratio level, but I would maintain for the time being a kind of a reference around the 50%.

Operator

Our next question comes from Marcos Sim, Itau.

Q - Analyst

Hi, good morning, everyone. So, my question is on revenues from fees. There is a lot of concerns from the market on that specific line, but Santander actually did very well in 2019 growing revenues by 8%. My question is here is -- is it feasible for the bank to continue growing above inflation and how dependent this potential growth will be from the heated corporate investment banking segment that is already doing very well? It did already very well in 2019 and it's already had a very good start of the year as well. Thank you.

A - Angel Santodomingo Martell

Thank you, Marcos. Well, this is a direct formula. This is direct relationship with first what Sergio was commenting. I mean, our obsession that our client is well served and if it finds our bank as a place, a common place, where he wants to use it in the bank. So, again, number of clients, number of active clients, loyal clients is clearly related to this discussion. And the second one is our wholesale banking unit, which is as you show in the presentation, they had a fantastic year being first in M&A, first employee or finance, first in ForEx, and they continue to gain speed and capacity.

So, I will say fees should grow. I mentioned before, no? I mean if we continue to maintain that kind of a strong pipeline in terms of clients in our positioning, in our obsession in MPAs and all was mentioned, I think that fees could maintain growth above inflation easily, but this is going to be obviously a difficult one and it has to do with our capacity as a bank to position our service as a serving bank, as a bank that is really focused on service to clients.

Operator

Our next question comes from Victor Schabbel, Bradesco BBI.

Q - Victor Schabbel {BIO 17149929 <GO>}

Hi guys. Good morning. Thanks for the opportunity. I personally like the example of Best Buy and Amazon that Rial has spoke about. And I would like to follow-up on this front. So, Best Buy changed dramatically the way they operated their stores, moving some of the inventories there for the clients to pick up and this was sort of game changer, not to mention they consulting services that they started to offer. And how do you guys see yourselves changing the experience at the branch, right? Because nobody in general talking here about the new customers -- it's not new customers, the customers that are the takers of new technologies faster. These guys don't want you to re-go to the branch or don't even like much the experience at the branch.

So, how are you guys thinking about changing this experience? How you could think about improving for example, the platform -- the branches for providing extra support to get that for instance, because the stone has its hubs in the merchant acquiring and the bank should they struggle to develop a better distribution channel for merchant acquiring service just an example. And in this -- I am sorry, for making it that long, but in this scenario, how do you see Santander relative to the other banks in terms of IT infrastructure, and how it could be a hurdle or a challenge for you to implement new initiatives and new solutions to each customers given this focus that we welcome by Santander in client-centricity and focus on NPS, we really welcome the disclosure of this by the bank, so we would be willing to get a better sense on what you could do better in terms of user experience. Thanks.

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

Okay, Victor. Sergio. So, what I see as we call them branches, we actually and you certainly use the word we use, we call them stores. We see them as a physical channel. We do see that as an important physical channel. What have we done in order to change what you call the experience. The first thing is we have changed the entire coverage model inside of every store, and how have we done? We deconstructed the organizational chart. In many places, you will not see tellers. In many places, you're going to see the space of a teller, but that person is not sitting behind it. It's actually on the forefront of the space.

So, the way we are reorganizing ourselves, one, everyone sells and everyone gives consultants in terms of what is the best course. It doesn't matter your position. Number 2, there is a store manager. So, that store manager has to get out of the desk, because then -- that's when technology comes, where you -- and we are working on having 100% of products and services being able to do it completely digitally, meaning the customer goes there, puts his or her finger tip, and that should be enough to have the product or services process. So, we are attacking all paper flow that exists inside of the organization.

Second point is moving away from selling, which you need to still do, but getting much more of a consultancy aspect. For that in Santander, most likely by the end of 2020, everyone will have at least CPA20. Last year, we basically put the bar at CPA10 around 700 people were not able to reach that level of financial graduation, if you will. So, the other component at the physical channel is that the quality, the technical quality of people has to become incredibly stronger. Other components, I would encourage you to visit our Work Cafe store. We have a Work Café store in Avenida Paulista. We also have one very close to Faro, which is just another example of what I call segmenting your physical channel. We are going to see stores, totally designed for SMEs, you're going to see stores very much designed for more investor type of customers and you're going to see stores like the Work Cafe, which is a combination of a classic retail and coffee indulgence with experience. So, I would encourage you to do. So, we're going to continue to try to innovate different store levels for different experiences according to the region, where the store is in service. Thank you.

Operator

Our next question comes from Eduardo Nishio. Mr.Eduardo, you may proceed.

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>}

Well, first of all, thank you. I always say thank you for the coverage, thank you for making us a better organization with your comments and that goes in particular to the sell-side, provoking, challenging, being constructively critical. This is the fourth year. We continue this is going to be an important year. Lots of changes happening in the Brazilian marketplace, and we will continue to pay attention to some of the variables you've seen in the past, profitable growth; that's one, our people, and transforming making our people differentiating factor, paying lots of attention to data, and how do we extract value. And then we can prove, we can extract value out of that moving from the technology bubble talk to the shareholder concrete talk, data to profit.

Last, but not least, paying quite a bit of attention in the different channels from digital to physical how we can optimize the distribution platform of Santander Brasil, so that we remain an important engine of growth, but also transforming what used to be bank in something that may become a bank tech. So hopefully, we do become more of a bank deck, which is the merger of a bank and the fintech.

So, with that, I really thank you and please continue watching us. Thank you.

Operator

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