Q4 2017 Earnings Call

Company Participants

- Andre Parisi, Head of IR
- Angel Santodomingo Martell, CFO, VP Exec. Officer, Investors Relations Officer & Member of the Board of Exec. Officers
- Sergio Agapito Lires Rial, Vice

Other Participants

- Eduardo Nishio, Analyst
- Thiago A. Kapulskis, Analyst

Presentation

Operator

Good morning. And thank you for waiting. Welcome to the conference call to discuss Banco Santander Brasil S.A.'s Results. Present here are Mr. Sergio Rial, Chief Executive Officer -- Mr. Angel Santodomingo, Executive Vice President, Chief Financial Officer -- and Mr. Andre Parisi, Head of Investor Relations. (Operator Instructions) The live webcast of this call is available at the Banco Santander's Investor Relations website at www.santander.com.PR/IR, where the presentation is also available for download. We would like to inform that questions 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 different 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 Santander Brasil 2017 Earnings Conference Call. This past year, we had several important achievements, which will be presented today by our CEO, Mr. Sergio Rial. Then our CFO, Mr. Angel Santodomingo, will provide more details on our Fourth Quarter and full year results.

Now let me turn it over to Mr. Sergio Rial.

Sergio Agapito Lires Rial {BIO 1925337 <GO>}

Good morning. Sergio Rial here speaking. It's a pleasure to be with all of you this morning. Thanks for joining our call. So we are here to present our '17 numbers. Many of you have already seen some reactions from the sell side. I would suggest we start by pointing and strengthening the fact that Santander certainly has been a good turnaround story over the last couple of years, where the culture and strengthening a culture to serve. But a culture also very much focused on client and growth with an eye on profitability, has been pretty much the drivers of our recent and recent past performance. So culture for us, it is the foundation that basically explains a big chunk of our performance.

So on Slide 5. Besides the results and financial numbers, I think the CFO, Angel, here will go through review. We have had a phenomenal growth on the customer dimension. I mean, this is a bank that has today a thriving retail operation, which wasn't the case a number of years ago despite the macro environment in Brazil. We were able to actually position ourself as a credible alternative and an innovative one in the marketplace. So you can see on that slide the significant growth around digital customers, not because digital customers in itself go. But it basically gives us a signal how fast we're going into an important channel, a very important channel, not the only one being the digital one.

We have reached almost 22 million true active customers, people who are transacting with us on a relatively high frequency, which has basically consolidated another important quarter of growth in terms of customer base. So I think we have had 31 quarters growing our customer base and also the loyalty around it.

On the next slide, on Slide 6, it basically, again, tries to show the fact that we are, indeed, a growth story. So not only you can see that on the revenue side. But that revenue is certainly underpinned by real profitability as we're going to be able to see in a couple of moments. We have had important growth in credits in general. But we have selected the products that we actually wanted to have growth. So consignado, that's very well known here. Our consumer loans were done on a very risk-controlled manner and that allowed us, over the last two years in particular, to actually gain traction and gain market share relative to our competition as you can see both here in terms of loans. But also in terms of deposits.

And as I mentioned before from a customer base point of view, not only we have grown it. But we also have penetrated and deepened the profitability levels with many of our customer. Not only through channels, here we are basically showing 2x more profitable through multichannel but also through the way we're basically restructuring and redesigning operations in the bank. We have approached our operations as 1 important key asset to be built against for the next coming years, hopefully, creating a real differentiation for ourselves. So happy to post an 18% growth in revenue and certainly pleased as the rest of the organization is to have post 36% growth in terms of net profit year-on-year.

On the next slide, it is another example of our commitment to narrow the performance gap that we had with our main competitors. So there's still nothing to celebrate. I think we need to recognize, for sure, an important turnaround story since 2015, 2014. But our commitment is to continue to be one of the best-performing organizations in the financial space in Brazil. So there's quite a bit of work still ahead of us. We take it with humility.

We also certainly take it with joy that our efforts have paid off. But it's not yet something that we consider to be a story done. So there's quite a bit of work to be done. Our commitment to shareholders hopefully has been shown over the couple of years. But more importantly also with an important dividend yield as you can see here of almost 6%, showing that we are committed to keep our shareholders highly, highly engaged with ourselves.

Slide 9, where we moved to Santander Group results, nothing more than just the group has done very well. And I think it has been helped by a number of geographies, not only Brazil. But in particularly, I would say, the improvement of ROE in Brazil and ROE in Mexico has certainly helped the group to move to one of the best performing or best ROEs. But Brazil remains a very important piece of the entire Santander Group.

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

Angel Santodomingo Martell

Thank you, Sergio. Good morning. This is Angel Santodomingo speaking. Pleasure being with you, again, presenting our results.

Starting with the macro, quick view. As we have been anticipated during the last year, economy recovery, I would say in Brazil, is a fact. And comparison on all main activity sectors and with advancing both household consumption and investments. The economy seems set to post the best growth rate probably since 2013 during this year. Consumption, as I said, is back to positive territory. We have almost a 5% growth forecast for this year, which added to the moderate but steady improvement of labor market conditions may trigger a long positive cycle. Another important driver is a substantial monetary easing process.

The overnight rate, as you know, has been carrying more than 700 basis points in the current leasing cycle. And it's likely to remain below 7% during 2018. We do not see inflationary pressures this year. The combination of low rates, low inflation, stable currency and economic expansion added to a reduced presence of the (inaudible) reset in the credit market creates a favorable environment for operations in the capital market.

Let me move now to Slide 14, I think it is, which is where we bring the main details of our performance in 2017. In the year, net profit increased, as Sergio mentioned, by 36% explained by a host of factors. Just to name a few as an introduction. NII growth mainly supported by individuals loan portfolio expansion and healthy spread environment, combined with a winning strategy on market activities and further gains on deposits NII. Greater customer loyalty resulted in higher transactionality boosting fee revenue growth. This is an idea we have been sharing with you in the last quarters as transactionality is increasing from the clients, provision and expenses under strict control and comfortable capital and liquidity levels.

Next slide. You can see the evolution of net profit, which totaled BRL 10 billion in 2017, 36% higher than 2016. On a quarterly basis, this is the 15th out of 16 quarters or almost four years in which we have delivered earnings growth Q-on-Q. In fact, we are delivering almost 50% above the average quarterly earnings that we had in '15 and '16. This set of long-term performance enforces the fact that we are on the right track to keep delivering sustainable and resilient results.

Under Slide 15, we present the main lines of our results about which I will go into more detail on the following slides. Our total revenues remained flat Q-on-Q, only impacted by weaker market activity. In the full year, we presented an 18% increase, reflecting a good performance from all of these -- its components: credit and funding NII and others. Fees advanced by a strong 10% in the quarter and 18% in 2017, fast entering '18 at a double-digit rate of speed. On the expense side, also provisioning expenses increased 9% in the quarter.

They decreased 7% in 2017 in the full year. General expenses grew 8% Q-on-Q. And this is some of a seasonal effect. And in the year, 7%. But still at a lower pace -- much more lower pace than revenues. In fact, almost 1/3 of the growth of revenues. As a result, net profit totaled BRL 2.8 billion as mentioned in 4Q '17. I will elaborate now on the main concepts in the following slides.

The Slide 16 shows our NII evolution, which totaled BRL 37 billion in the full year or 19% higher than 2016. On a quarterly basis, it decreased 4%. Highlights are: credit NII is down almost 7%, 6.6% in the quarter and 12% in the year, reflecting good growth on the retail loan book and the positive impact of credit spreads. Evolution of these spreads is explained by commercial discipline and the mix shift towards the individual segment.

Revenues from funding also had an stellar 2017, growing by an outstanding 31%, equivalent to BRL 1 billion year-on-year. Such great results are basically explained by the reliability management plan and that which I announced to you two years ago, which granted a good performance even in a strongly lower Selic rate scenario.

Market activities, under the orders concept, after reaching a very strong level in the first Quarter, this quarter, they have come back to a level closer to historical averages due to a worse credit story activity or market lean activities. The result was 30% lower Q-on-Q. On the other hand, in the full year, the line delivered a 33% growth.

Next slide. Let me go a little bit more in-depth in our loan portfolio, which increased 3.4% in the quarter and almost 8% in the year, which we consider as a strong performance given the financial sector behavior. The -- in general terms, the financial sector dropped 1% year-on-year. The highlight continues to be the retail segment, as you can see in the upper part of the table, which includes individuals and the consumer finance segments.

Individuals portfolio kept a resilient growth, expanding by 6% over the previous quarter and 18% in 12 months. Favorable agricultural and credit card loans, along with mortgages to a lesser extent, were the main growth drivers. Once again, Consumer Finance delivered solid figures also. We had expanded 7% Q-on-Q and 20% on the year, continuing to reap the benefits of our auto financing, digital platform, individual pricing model that I have also shared with you in the past or previous quarters.

The SME portfolio keeps on gaining momentum, which is an important point also to underline. Accelerating from first Q with a 4% Q-on-Q increase and also 4% year-on-year. We believe that the combination of commercial focus and more company offers and with a better macro SME view will pave the way for portfolio expansion. And finally, the corporate portfolio remained flat in the quarter, partially reflecting the strength of capital markets.

On Slide 18, you can see how our funding has evolved, another important part of our NII evolution. Highlight -- I would like to highlight the following areas: client deposits, demand in savings increased strongly both in the year and the quarter, reflecting client activity and trust. We are growing well above the country here. TVs and debentures also grew strongly in the year and are almost flat in the quarter, reflecting new regulation in Brazil.

Financial bills, being the most expensive instrument in the funding scheme, have almost halved in the year, again demonstrating a strong focus from management. And finally, assets under management of balances presented also good growth in the year. All in all, funding from customers remained flat Q-on-Q and increased 3% in the year with a strong shift in mix towards client funding and away from expense funding, reflecting, as I mentioned, our initiatives to enhance customer engagement.

Next slide. As we have been saying during the last four years, fee revenue growth is a consequence of more engaged customers, adequate pricing and improvements in the quality of our products and services. Altogether culminating into increased transactionality. Total fee revenue jumped 18% in '17 and reached almost BRL 16 billion, reflecting a good performance in most of the lines with a highlight in credit cards, current account, insurance and brokerage and placement. Such good trends pave the way for another positive year looking ahead.

So let's move now to credit quality to asset quality, next slide. The 15 -- to 90-days indicator maintains a positive trend, meaning we do not foresee deterioration ahead. The NPL over 90 days increased by 30 basis points, influenced totally by a unique case in the corporate segment. This unique case, as of today, is already solved. So in first Q '18 numbers, you will see -- you will not see this one-off impact.

Excluding the effect from this event, the corporate NPL would have increased only 10 basis points in the quarter and total NPL would have been -- total of the bank, obviously, would have remained flat. Let me underline that the short-term NPL in the segment kept its downward trend, 60 basis points to 2.5% and reached its lowest level in recent years. In the individuals segment, NPL remained flat in the quarter and its short-term NPL improved 10 basis points. In our view, these figures are undeniable evidence that our asset quality remains controlled and also at comfortable levels. As a consequence of this specific corporate case, as I mentioned, the coverage ratio declined to around 200%.

In the following slide, you will see that loan loss provisions, net of recoveries, totaled BRL 2.7 billion in the quarter, increasing 9% over the first Q and remaining flat on the year -- over the year. This performance was impacted again by that specific case I mentioned. But as a result, the cost of risk increased 20% in the quarter and still remains another 20% -- 20 bps below the level observed one year ago. The full year figures saw a 7% reduction on provision compared to 2016, which in our view, is an excellent performance again, given the fact that the loan portfolio, let me remember you, the loan portfolio grew 6% in the same period. So a strong performance relative to the growth in volume. This, obviously, is reflected in the mentioned drop of cost of risk in the year from 3.6% to 3.2%.

Under Slide 22, we see how expenses have evolved. We can observe that the expenses grew above inflation, both Q-on-Q and in the full year comparison. This dynamic comes as a result of backlog inflation and a greater commercial activity. Main impacts came from data processing, indicating that our clients are closer to the bank and using our services more frequently, additional expenses took place in order to deliver a greater number of transactions and accesses through different channels.

For example, in 4Q '17, digital transactions reached BRL 1 billion, growing 13% only in the quarter -- advertising and publicity with an intensity of marketing campaigns for new and already existing products and services -- outsourced services, reflecting the enhancements of digital processes, including the development of different new platforms that you have already seen -- and finally, personnel nine months of the year have absorbed the salary agreement coming from '16 that, I remember you, was 9%.

And obviously, the performance of the bank indicates variable compensation. In the year, total revenues grew 2.6x faster than expenses indicating that we are increasing or continue to leverage on our operational leverage. Looking ahead, we expect comps growth to be somewhere around inflation, although the level of commercial intensity of the bank will continue to put pressure here.

Next slide brings our performance ratios into the spotlight. And the efficiency ratio reached 44% in 2017, improving substantially from last year, previous year. The recurrenceÂ ratio stood at 80%, 81%. So maintaining the above 80% in the year, which in our view, is a level that already grants a great predictability to our results. Thank to these important advances, our channel equity kept increasing as mentioned. It reached 17% for the full year and 18.3% on the last quarter. Compared to the same period of 2016, we delivered a remarkable improvement of almost 440 basis points in profitability despite the challenging macro scenario in the country.

Finally, on Slide 24, you will notice that our liquidity and capital remain -- ratios remained at sound levels with stable funding sources that I already described in previous slides. The loan-to-deposit ratio increased in the quarter and stood at a comfortable level. In the current biz ratio, which is at almost 16%, 15.8% with a healthy core equity Tier 1 of 13.6%.

So moving to the final remarks before we start with the Q&A session. I would like to draw your attention to the main highlights of the previous year: return on equity of 18.3% in the quarter, showing a substantial improvement and remaining significantly above our guidance for December 2018 -- total revenues with strong growth, driven by loan expansion with healthy expense management, strong liability funding future that is already in place and see strong expansion showing client linkage and activity.

Asset quality under control, evidencing our excellence in risk modeling, greater productivity remains at the top of our priority list as our efficiency ratio reached the best level in five years. Commitment to delivering improvement in customer satisfaction and user experience, coupled with product and service innovations, allow us to be positive in revenue terms for 2018. We remain well-positioned to deliver ROE evolution, powered by a well-defined business strategy, organic growth and disciplined capital deployment.

Thank you for your attention. And now, I open the floor for Q&A.

Questions And Answers

A - Andre Parisi {BIO 21511610 <GO>}

Before Q&A session, I would like to announce that this year, we will host our first Santander Brasil Investor Day on October 31 to be a unique event with different experiences and a great opportunity to get in touch with Santander's top management. I hope to meet all of you there. There's more information in our IR website.

And now we are able to answer your questions. I'll start from Gustavo Schroden, Bank of America Merrill Lynch. The strategy of focus on Consumer Finance has paid off, supporting an expansion in NIM from higher spreads. Should we expect this same trend in the bank's NIM in 2018?

A - Angel Santodomingo Martell

Thank you, Gustavo. I think the discussion around NIM has to do with the different variables that compose the ratio. What would -- should we expect in 2018? I would expect positive volume on the asset side. We are already there, as you can -- as you have seen. While on the asset side, spreads obviously will tend to be under pressure. On the liabilities side, again, volume grow and there the spreads are yet to be seen if we are able to remain flat or increasing them. On top of that, that discussion and before moving to the rest of NII, we have the mixed effect.

As you are seeing, the portfolio tends to move to both collateralized. But more importantly, retail business, which means that adds help in terms of NIM. And finally, obviously, our ALM portfolio that has been commented in previous quarters. So all in all, I would say, NII and revenue growth, NIM will tend to be pressed at -- will remain positive in this one. I mean, still a year to go by with a big question mark on volume.

A - Andre Parisi {BIO 21511610 <GO>}

Next question, Philip Finch, UBS. My first question is about the outlook for your loan growth and on your Spanish parent earnings call this morning, they said that they expect double-digit credit growth in volumes in '18. Can you confirm this is your target this year? And what will be the drivers?

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

This is Sergio Rial, the CEO. I think we will remain very committed to continue gaining market share. So the macro environment is certainly more positive than what we saw back in '17. But it's difficult at this point in time to put a number, whether it's single or double-digit for credit growth. What we're experiencing, certainly in some of the spaces we have, particularly strongholds, Consumer Finance, auto loans, even personal loans, we are seeing a significant higher demand. So everything indicates good credit growth, certainly higher than we have experienced in '17. So my answer to you would be do expect a higher level than what you saw in '17. But it would be, at this point in time, not really appropriate to really put a number because things can happen still in a country that can, as we very well know, be pretty volatile.

A - Andre Parisi {BIO 21511610 <GO>}

Next question, Tito Labarta, Deutsche Bank and also Philip Finch, UBS. Question is regarding asset quality. Are there any specific case that could lead to higher NPL in the coming quarters? Following the resolution of the 1 corporate case, should asset quality improve for the rest of the year? And what would that mean for the cost of risk?

A - Angel Santodomingo Martell

Philip, thank you. I would say that what I mentioned that this is a specific case in the corporate segment hasn't explained the full impact this quarter. And as we speak, this is also the answer to if we will see these in first few numbers is yes, we will obviously see that, that comes back. This has had an effect on the NPL ratio, not on the P&L ratio. And that, as I said, explains the jump that you saw in the quarter. Looking forward in terms of credit quality, I mean, I have to track this discussion to the macroeconomic discussion. I mean, I think we all agree, as I mentioned in my words that we have a positive country in terms of macroeconomic behavior going forward.

If that is the case, I would expect credit quality to remain stable or improving within the country, within our peers and that -- and we should move our line with that trend. A country that tends to grow 5% in consumption or 3% GDP or employment clearly improves and business improves, I mean, you have 80% of the sectors already growing. You have a confidence in industrial sector at 99.9%. So almost -- expansion mode, et cetera, should lead to say that the worst is over in terms of credit quality.

A - Andre Parisi {BIO 21511610 <GO>}

Jorg Friedemann from Citi. During this year, the bank has delivered strong commercial activity, demonstrated by the high team retail credit growth. At the same time, cost of risk has increased gradually through the year. How do you see these 2 variables? Loan growth, particularly retail credit growth and cost of risk evolving over the next two years?

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

Well a good question. And I think it's certainly a question that comes very often. I think if you look at the last two years where all the trends, from a macro standpoint of view were certainly against potential loan growth, I think we have demonstrated capacity to really remain disciplined around the products that we wanted to grow, certainly the ones with a lower risk profile as you have seen.

On the car loans, again, we have also demonstrated a high level of discipline. We could have gained more market share if we wanted at that point in time since most of the players were not yet, let's say, responsive to be active in the car loan market. And we're seeing competition coming back. So I think the question, if you permit me to, it's more -- it's going to be more around spreads than it's actually going to be around NPLs. I think NPLs -- I'll be surprised if we would have a negative development relative to the past two years. I wouldn't expect significant improvement either just because of the speed and intensity of our growth so far.

But I would say that competition in general, the market in general will probably be paying more attention to volume than I think they have done over the last couple of years. So on NPL, no concern, as long as we remain very disciplined around products that we are focusing. On spreads, we got to keep an eye and be very disciplined as well as competition may be looking at volumes more decisively than in the last two years.

A - Andre Parisi {BIO 21511610 <GO>}

Next question is from Tito Labarta, Deutsche Bank. Can fee income continue to grow in mid-teens?

A - Angel Santodomingo Martell

Tito, thank you. Well we love to -- obviously, the strategy that the bank has performed and has presented in the last already two years, three years is that of better client experience, better linkage being reflected in fees as well as in NII. As I have mentioned in previous quarters, we tend to see total revenues per client, which means the client is the center. The client generates the activity for the bank and that means fees, that means NII, that means all sources of revenues. Specifically in fees, it is true that we have been growing strongly. I will tend to say that we will like to still grow in double digit.

I mean, we -- this is part of our public guidance. So we will keep on committed to maintain that acceptance by the client. Let me say that at the end of the day, what we are trying is that the client acceptance of our products and services is strong and that means the different buckets of commissions that you saw moving from credit cards, current account, insurance, et cetera, et cetera. So it's an added set of things that we would probably be able to -- and then we are able to maintain the improvement in that acceptance of our clients.

A - Andre Parisi {BIO 21511610 <GO>}

Next question from Thiago Batista, Itau BBA and also the same rationale from Alain Nicolau, Bradesco. Effective tax rate going forward, how many moving parts? And of the goodwill amortization potential increase in interest on capital, what's the level of effective tax rate we can see in 2018? And regarding the social tax, the bank is currently creating credit assets from provisions using the rate of '15 or '20?

A - Angel Santodomingo Martell

Thank you, Thiago. The tax rate in 4Q, as you know, tends to be impacted by several things. In this quarter specifically, we did pay an important amount of interest on capital and that positive impact was offset by the downsizing of the DTAs coming from moving the tax rate from 45% to 40%. As you know, the tax rate moved to 45% in three years. This is the last year that it is going to be 45%. So these dropped to 40%, the DTAs and that we created some time ago will not be useful in 2018.

And we decided to downsize them. And that has offset the impact a little bit of the interest on capital. So all in all going forward, your question, where should we see tax rate? Again, a difficult one. I would tend to say around 30%. But I mean, as a guess going forward that you may use in your calculations and numbers for 2018. Obviously, we will have to navigate the year and see how things evolve.

A - Andre Parisi {BIO 21511610 <GO>}

Next question. Subject: other expenses, coming from Thiago Batista, Itau BBA, Tito Labarta, Deutsche Bank. And Alain Nicolau, Bradesco. Other expenses. Can you comment that the level of other expenses we saw in 4Q '17 is the new level we can expect going forward? This line represented 11% of the bank's NII in 4Q for '17, nine months '17 and 14% in 2016 and 11% in '15.

A - Angel Santodomingo Martell

Thiago, thank you, again. This line is -- I have also served this division in the past. And this line tends to be a little bit volatile, as you mentioned in your question. So this Q -- it has do with several things. First, activity, okay? We do have expenses there that are linked with activity. For example, credit card fees or fiscal expenses, we have there the (inaudible), et cetera. So you tend to have things that go with revenues. On top of that, you have contingencies, et cetera, no? It is also true that if you compare historical, we had a high level of negative amounts in second Q and third Q.

So in fact, this fourth Q has trended a little bit more to normal levels than in the past 2 quarters. Again, this is a difficult line to estimate because you always care for positives and negatives probably moving around current numbers is a wise thing. But let me put a disclaimer here, which is -- I mean, there are things that obviously you cannot anticipate when we speak of other expenses of other expenses. But I would work with that.

A - Andre Parisi {BIO 21511610 <GO>}

Next question from Jorg Friedemann. Mr. Sergio Rial, in your conversation with the group board, what's your perception about the group's sentiment with regards to the limited free flow of Santander Brazil? Would, at some point, make sense for the group to increase Santander Brazil's free flow back to something close to 25%. And thus, increasingly more ADTV? Or this has not has been on the agenda, given improving capital conditions on a parent company standpoint?

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

It's a good question. But I would say, it's always good to have happy shareholders. So I guess, they are one of them. They are particular happy over the last couple of years. So of course, I can't speak for shareholder. Of course, I do speak with the Group's board. And I think their perception about Brazil, it's not very different than I think management here locally have, which is, it is a growth story. There's quite a bit of earth for us still to pick up. And I think those who have been following the group, you have seen both Mexico and Brazil being important growth drivers.

But as far as liquidity is concerned, we're really pleased to see that it has increased over the last couple of years as well. But let's say the controlling shareholders doesn't have a point of view here in that particular, just as reinforcing the level of product commitment to the operation. But, importantly also, satisfaction with recent results. So I wouldn't be able to say anything beyond that. Now if you think about local management, we have our deferred compensation in the local currency. So we're certainly a lot more pro liquidity in that respect because it is in our own also interest as management in a broader sense. But we don't see that as of yet as a real impediment.

Of course, if we would have a 25%, we certainly would see other funds and some investors with a particular profile relative to liquidity coming to our stock. But on the other hand, the stock has done well. It still has potential as far as I see as management. I'm absolutely a big believer of cost, as you can imagine. So liquidity has not been an impediment to that respect. So much so that I think performance over the last two years has proven that.

A - Andre Parisi {BIO 21511610 <GO>}

Yuri Fernandes from JPMorgan. Client strategy. You have been gaining clients lately despite a challenging macro and still high unemployment. The company has been vocal on better experience for clients, leveraging on GAAP net, investments on IT, among others. But can you give some examples on what has changed? Also, do you see your competitors changing their strategy to recover some clients?

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

Okay. So I think it's a very important question. I believe that Brazil with more normalized interest rates, wherever you want to put them, it's going to be Brazil that is going to be certainly more challenging for the bank industry as such. And I believe consistency in terms of service but also improving service over time, it's going to be critically important. You have asked me some tangible examples. So of course, I can give you a number. But I'm --

let's try, for example, with one of the businesses that we have shown interesting growth, which has been credit cards.

Banks generally do not have a full understanding or visibility of what I call the supply chain end-to-end on a particular product. I mean, you -- banks, we also have industrial lines. So when you think about credit cards, businesses like the one we have, they are neighboring or on very close to 15% market share. The complexity of managing since the customer asks for a card, either digitally or in a branch, to the time that card is delivered with the right name, the right card and at the right time, there are number of steps in between that if this is not really well mapped, you certainly have a number of problems.

And problems that you actually don't see as the investor because what you have is cost and waste and rework that at the end tends to make any institution less predictable and less consistency. So we are very committed to consistent level of service. It's hard work. It doesn't happen on 1 quarter, less -- even less on one year. But I believe. And I think the rest of the management as well, that we have the space in Brazil to raise our game in terms of being a bank that can actually surprise positively customers. And when you do that, I think it will create, potentially, a dynamic of solidifying us as being pretty much a very good alternative to the so-called incumbents, no, against whom we compete. But this is hard work, again, done with humility. And we have to build year after year.

The NPS, the Net Promoter Score, which is a ratio that we are using, we're not publicizing it yet, it's a very good indicator how customers see us in that journey. We're certainly going to be, over time. And I think Andre has mentioned on our Investor Day, we are now debating whether on that day, we're going to be more explicit around NPS because I think it can be something good for the industry overall, not just for Santander.

And maybe we're going to be not necessarily the first, we don't have any particular ambition being the first. But certainly one of the few organizations that would be vocal in making that transparent so the market can also see progress around service levels and customers' appreciation around what we do, how we do it and the consistency around it. So I think more to come around that.

A - Andre Parisi {BIO 21511610 <GO>}

Next question from Thiago, Itau BBA and Carlos (inaudible) Banco do Brasil. Regarding the bank reverted BRL 1.1 billion in excess provisions. Can you comment about the rationale of this move?

A - Angel Santodomingo Martell

Yes. Thank you, Thiago and Carlos. Well I would say this is just a move in between lines of the existing line provisions. So it's nothing special here. Probably following a conservative way of our risk modeling has to do also with the convergence of gaps -- of accounting gaps in between the Brazilian GAAP and the group's criteria regarding IFRS 9 looking forward. So we have several motivations by which we have reallocated this provision. But I mean, nothing has really moved as you have seen in terms of coverage, exiting provisions, et cetera. Thank you.

A - Andre Parisi {BIO 21511610 <GO>}

Next question from Yuri Fernandes, JPMorgan. Actually, regarding to SMEs. Most of investor expectation has been on your individuals and Consumer Finance loan growth. Combined, up 19% year-over-year. But your SMEs portfolio also has accelerate lately. Notably, it increased 4.1% quarter-over-quarter. And is this the positive territory for the 3 following quarters? What to expect for 2018? How's the competition in the segment?

A - Angel Santodomingo Martell

Thank you, Yuri. I would say, I mean, we have been commenting this that we have a specific plan for our SME of all -- SME segment here in Brazil. It's (inaudible), it is composed of both financial and nonfinancial products and services. We have been initiating this for some time now. If you remember in past quarters, I always said, also we are flat, also we are negative, I mean, this is -- would gain momentum going forward and this is what we are seeing. Now, it is true that the financial sector in this segment is performing negatively and we have started to perform positively. I will say that this segment as a whole will tend to go with the macro scenario, the macro behavior. But here, we are devoted to gain market share. So we should maintain above financial system growth in the SME segment.

A - Andre Parisi {BIO 21511610 <GO>}

So once again, I'd like you to save the date of our first Santander Brasil Investor Day. It'll be a moment that we will present our growth plan for the next years with our further details from our commercial expanded retail strategy. And you could see a lot of segments and products, what are we doing and planning to gain profitable market share as we have doing from the last quarters. This is the time we're going to open the questions from the phone calls. So please?

Operator

Mr. Thiago Kapulskis from BTG Pactual would like to pose a question via telephone.

Q - Thiago A. Kapulskis {BIO 19187926 <GO>}

I just have one question. You probably know that there was quite a big IPO recently on the acquiring side on (inaudible), right. And I think everybody, including us, we were quite surprised with the large numbers there, right. But the question that we make ourselves here is that there might be quite an in-depth niche, right, either on the acquiring side or on the banking side for these micro entrepreneurs, right. So how do you think about that? Could that be an opportunity either via Getnet or via the bank to actually capture those clients and try to monetize somehow that type of operation? Any strategy that you could put on the sense? That would be my questions.

A - Angel Santodomingo Martell

Thiago, thank you. We're acquiring -- I would say, we're acquiring business, as you know, it's part of our range of products and services. I mean, this is probably the main reason for the success that we're having here. So we do not see that Getnet is a main, it's a company obviously. But we see that as a part of our offer through small businesses or large ones. So that integration with the bank in pre-post sale services in the products, in the way the client approaches the bank, contacts the bank, et cetera, is probably the success and what explains the performance. We still think we will be able to capture market share. So we will clearly maintain growth there. But again, as a commercial tool to grow in the rest of the ratios, in the rest of the markets and in the rest of the revenue parts that we mentioned, both in fee and NII.

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

Thiago, it's Sergio. Just adding on. Questions for Getnet, I mean, one of the things we will continue to prove, there was always a sort of a question whether it was sort of limited to Santander, their relative presence from a customer point of view. So I think over time, we're going to be constantly proving that, that's not the case. So we will grow -- we'll continue to grow. And thus, Getnet will be a double-digit market share on the high-end operation. Having said that, I mean, we don't have a challenge around capital or liquidity first. I mean, if you would consider, for example, which I think there's a bit of an underlying tone around an IPO, I mean what would you do with the proceeds?

I mean. So I think that's not our concern at this point in time. Investors -- I mean, from a return point of view, our commitment is actually ROE. So I haven't -- it's interesting to see that there haven't been many questions around ROE. So which is somehow a signal that, that is becoming more accepted that we can certainly narrow the gap, whatever that number is. We are happy to present in '18. We want to narrow the gap with our 2 largest private competitors. It's not going to be a linear story. I think it's important that the market also understands that our commitment remains, our 2 largest competitors.

But don't expect it to be a linear growth every quarter. But so I think we're so much focused on profitability as of yet that, I think, the whole chess game, as far as Getnet is concerned for us, it's all about gaining more scale, more market share and making it more of a technology company than actually an acquiring company. Acquiring is just an instrument and there, I can tell you without necessarily sharing any hidden secrets, I think we have very strong views and intent around e-commerce. So you can expect Getnet to be more technology and more of a significant player in the e-commerce space than I think you've seen in the past.

Operator

(Operator Instructions) Mr. Eduardo Nishio from Banco Plural would like to pose a question.

Q - Eduardo Nishio {BIO 15333200 <GO>}

Two questions. First one is a follow-up on spreads. The -- if you see the industry is already highly -- spreads going down. And certainly following more competition, you pressure that. Outside from that, this Central Bank is more practically containing against the spreads. Could you give us a bit more color on what you're expecting from a regulatory perspective such as lower overdraft weights?

Or at least the end of -- we're seeing on the press, the end of free interest credit card payments installments. And can you tell me what's next? What do you expect from a regulatory perspective? And the second question, since you mentioned ROEs, it seems that the private banks are migrating to an ROE around 20% and with the convergence of interest rates at structurally lower levels. What do you think -- what are your views on the sustainability of these ROEs at 20%?

A - Angel Santodomingo Martell

Thank you. On the first part, in terms of spreads, I elaborate little bit. We, both on the asset side and liabilities side, obviously, we move into the part of a cycle in which we are going to have positive strong growth or positive growth with volume growth. Depending on the segment, you're going to have probably different behaviors. But in any case, especially we tend to have to be on the asset side under pressure. So I will not expect strong performance from the spread side on the asset side. Clearly, as we move from large companies to the retail world, the pressure will be different.

But that -- I elaborated on the NIM argument before and that will be one of the important points in 2018. With regards to regulation, et cetera, obviously, the country has to pause. And I think that if we think of a Brazil in five years' time, 10 years' time, we'll probably see a Brazil that has flexibilized [ph] a lot of the current regulation that we have, that will make probably concurrency higher in terms of prices, for example, of some products, in terms of volumes of some products. And that leads with a lot of things. So I will say that yes, we are moving into an environment in which regulatory reforms will be there. We will also play our role.

We will try to maintain profitability and growth level as we have done in the past. Remember, this bank has outperformed within a strong adverse macroeconomic scenario. So I think we have some credit in terms of being able to maintain growth. In terms of profitability, that's a very good question. Sergio elaborated on the ROE evolution. I would say that we strongly committed to maintain high levels of profitability. There are 2 specific areas I would like to share here with you. If we move into the Brazil that we are seeing, our cost of equity will trend downwards, okay? So the economic value added, the economic profit that will be generated will be larger, even maintaining the current levels of profitability.

The second way of thinking that also I would like to share with you is that I would not extrapolate, it's like investment managers speak (inaudible). So past stories do not tend to be -- to have to be repeated. And I will not extrapolate the amount of improvement, obviously, that you have seen in the previous past for ROEs. We remain committed to improve. We remain committed to be within our competitors. I think we have strongly closed the gap. And that capital discipline and usage will continue to be one of our main stories.

Operator

Thank you. The Q&A session is over. And I wish to pass the word to Mr. Sergio Rial for his closing remarks.

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

Okay. So this is -- again, it's -- first of all, again, thank you. Thank you for your support, for your patience, for your belief that Santander could actually be a turnaround story. We take this year. And I really mean it, with a great deal of humility. We have phenomenal competition, incredibly competent and good. So I think -- but what you can expect from us is a real commitment from all and each of us towards yourselves, shareholders, who have basically supported us.

We'll continue to be, as much as we can, a growth story with a very clear eye on profitability and gaining market share, which makes sense, without compromising, as you can imagine, our risk parameters and risk profile. We remain committed to be a vibrant entity with a strong culture, where, hopefully, you're going to be able to see, over time, that we will be building, if not the best, certainly one of the best banks in this country.

So with that, thank you very much. And as we say in Santander, we think big and try to execute even better when we can. So thank you. And thank you for your support.

Operator

Banco Santander Brasil Conference Call has come to an end. We thank you for your participation. Have a nice day.