Q1 2019 Earnings Call

Company Participants

- Andre Parisi, Head of Investor Relations
- Angel Santodomingo, Executive Vice President and Chief Financial Officer

Other Participants

- Jorg Friedemann, Analyst
- Rafael Frade, Analyst
- Unidentified Participant

Presentation

Operator

Good morning and thank you for holding. Welcome to the Conference Call to discuss Banco Santander Brasil SA Results. Present here are Mr. Angel Santodomingo, Executive Vice President, Chief Financial Officer and Mr. Andre Parisi, Head of Investor Relations. All the participants will be in listen-only mode during the presentation, after which we will begin the question-and-answer session and further instructions will be provided (Operator Instructions).

A live webcast of this call is available at Banco Santander's investor relations website at www.santander.com.br/ir, where the presentation is also available for download. We would like to inform that 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's operating and financial projections and targets based on the beliefs and assumptions of the executive board as well as 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 Santander Brasil 's earnings conference call. We had another solid quarter, which will be presented by our CFO, Mr. Angel Santodomingo.

Before moving on to the quarter's highlights, I'd like to remind you that Santander Brasil will host our first Investor Day in October 8, when we celebrate 10 years as a listed company. It'll be a great opportunity to discuss with the top management about the strategy, threats and opportunities. We will provide further information in the coming months.

Now I turn it over to Mr. Angel Santodomingo.

Angel Santodomingo {BIO 15757370 <GO>}

Hello, good morning, everyone. It's a pleasure being with you all of you this morning again. Today's agenda, as you may see, I will start with key messages with a look at the Santander Group's results which were presented this morning. Next, I'm going to provide a quick overview on macro outlook of Brazil, which will be followed by our quarter results and to wrap it all up, I will finish the presentation with some concluding remarks on the main topics that we will be discussing today.

So going to the next slide, first main idea is that our profitability remained solid. In first Q '19, we delivered a 21.1% return on equity, maintaining same high level as last quarter and being the highest level for our first Q since our IPO 10 years ago.

In the following slide, I will elaborate on the results that sustain this positive performance. But in a nutshell, I will say that P&L operational leverage, coupled with tightly controlled provision expenses was key to our success this quarter.

We have achieved top of class in both efficiency and recurrence ratios, as you may see in the slide. I would also like to draw your attention to the fact that we distributed BRL1 billion in dividends, in part interest and capital in the first Q of this year, which compares to BRL16 [ph] million in first Q '18 and close to BRL500 million in first Q '17.

On the slide six, we show that our good performance is a response to our efforts to continually improve the experience of our customers and the engagement level of our employees. As I've mentioned in past quarters, customer satisfaction is a cornerstone of our study to keep growing in a consistent, sustainable and profitable manner. We keep track of our progress in this field through the NPS, the net promoter score that you already know, which increased by 10 points compared to first Q '18 and a couple of points versus last quarter, reaching 59 points. As we arrived to this high NPS levels, it is obviously more difficult to keep on showing strong improvements. In any case, we are absolutely convinced that the positive evolution in this indicator is one of the main pillars that have helped and is helping to drive the expansion of our customer base. I should also note that in our view, the continued dedication, engagement and commitment of Santander employees has been instrumental to the sustainability of our business.

Next slide shows that we remain focused on gaining profitable market share in both assets and liabilities. Let me go through the different products. Vehicles, our digital platform combined with our risk-based pricing remains the backbone of our success. We have been developing solutions to strengthen our leadership, such as the latest new website platform within web models. We engage and empower customers and leaders with a multi-disciplinary platform that gathers solutions to enhance the entire car buying and selling journey.

Cards, our offer of differentiated products for each niche and the best credit card app in the industry Santander Way helped us deliver another solid quarterly performance. Payroll loans, to reach a market share slightly higher than 10%, quite a positive evolution when compared with close to 0%, 0%, I repeat in 2014. Our digital platform has definitively cultivated to this achievement, along with our strategy of increasing the number of companies and municipalities that we process payrolls for.

Getnet, even considering an intense change in the competitive environment, we keep gaining and leading market share at a profitable level. Here it is important to understand in full spectrum of the bank-customer relationship. We consider Getnet a crucial component of our plan to leverage the bank's revenues.

And last but not least, Agro business that our expansion process continues on track as part of our plan to expand into Brazil's inner side.

On the slide eight, we underline the foundations for why Santander continues to be a growth story. We have one external variable, the macro environment that obviously will help structurally our evolution. On top of that we have four forces within our structure that should keep on following our growth; efficiency, cross selling, expansion of our ecosystem and new businesses within it. In line with this, we made two important launches in first Q; A, our open investment platform, and then an employee's benefit solution company currently offering meal and food vouchers. These products offer customers attractive conditions and we are confident that they will achieve outstanding results in the coming quarters and years. We're also about to begin our operations at Santander Auto, our joint venture with insurance company, HDI to provide auto insurance.

On the next slide you may see part of Santander's ecosystem devoted to innovations. It shows three different examples of products that we offer, SuperGet, Superdigital and Prospera. These are great services on a standalone basis as you may see by the numbers we show with good growth realities that when combined, they end up as a strong offer. As an example, when you can see the platform that we have built to support Natura's sales representatives. With our POS, they no longer need 200 cards and with access to microcredit Prospera, we can leverage sales, all connected to a digital account with a super digital card. We are planning (inaudible) much simpler and secure with an integrated solution. Same thing, for example happens with our recent offer of our mini POS.

Moving to Santander Group results that were presented today and I'm not going to elaborate too much on that. Net profit for the first Q reached EUR790 million. This quarter

Santander Brasil represented 29% of the Group's earnings, showing the relevance of the Brazilian subsidiary results for the Group.

On the back of well-behaved inflation, moving to macroeconomic slide, of our well-behaved inflation dynamics in tandem with the maintenance of sound performance of the balance of payments, Brazilian economic fundamentals remain positive, although probably at lower than expected levels compared with some months ago. Economic activity has showed slower than anticipated recovery trend and market participants are probably looking forward to seeing concrete progress as far as the agenda of structural reforms is concerned, which has prevented confidence indicators from improving further.

Moving to the next slide, we present to you our net profit evolution. In first Q, net profit reached BRL3.5 billion, increasing 22% year-on-year and 2% on Q-on-Q. This performance come as a result of our well-defined strategy, focused on profitability, improving customer perception of our services, and constantly increasing the base of active customers. At the same time, we keep focused on maintaining our risk models among the best-in-class and our relentless effort towards efficiency gains. As a matter of fact, the number of active customers grew for the 46 consecutive month, leading to a solid and sustainable revenue growth, allowing us to gain profitable market share.

On the slide 16, we present the main lines of our results, about which I will go into more detail later on. Considering that there is always some seasonality in this quarter, let me highlight the following figures. On the revenue front, NII remain practically flat relative to 4Q, as the increase in credit NII was partially offset by a reduction in deposits NII. Fees decreased 4% in the quarter. We did mention seasonality effect that is traditional in this quarter. In a year-on-year comparison, fees grew 10%, maintaining a solid performance. And on the expenses side, after the hike I commented last quarter on provisioning expenses, it decreased 13% in the quarter, which is a level more in line with previous quarters. P&L expenses growth was above inflation, driven mainly by higher administrative expenses, but it still remains below total revenues growth pace. In the quarter, it decreased 7%. I will elaborate on the main concepts in the following slide.

On the next slide, we show our NII evolution, which totaled BRL10.8 billion in first Q '19, increasing 6% in the year. Highlights are credit NII expanded 1% in the quarter impacted by a lower number of calendar days, while it increased 9% year-on-year, reflecting a solid loan portfolio expansion. Revenues from funding decreased 4% Q-on-Q, explained mainly by spreads and average volumes and the others (inaudible) recorded in line with the last four quarters' average.

In slide 18, we can see that our loan portfolio increased 11% year-on-year and 2% in the quarter, reaching 311 million. Individual segment continued to deliver a strong performance, increasing 3% in the quarter and 20% in 12 months. Credit cards, personal and payroll loans were the main growth drivers. Consumer finance also delivered a solid performance year-on-year, expanding 18%, powered by what I mentioned before, our successful digital platform and individual pricing model. The SME portfolio continued on a good pace, expanding by 9% year-on-year. The Q-on-Q comparison was impacted by seasonality in the quarter as SMEs demand more credit to meet end of year impact. And finally the corporate portfolio, which is still lagging due to the capital markets activity and our profitability oriented strategy.

On slide 19, you can see how our funding has evolved. In a yearly comparison, funding evolved positively with the highlight to the positive performances of savings and time deposits, growing 12% and 20% respectively. At the time, the only negative performance appeared in the most expensive instrument, financial bills or (inaudible) which presented a 4% contraction. On the quarter, it increased 1%, being adequate to support our loan book growth for the coming quarters.

Now let's talk about commissions. In our fee revenue, performance is highly linked with NPS. It comes as a result of adequate pricing and raise in funds service, quality and related loyalty, fast increasing transactionality. In a yearly basis, total fees increased 9.5% with a positive performance on cards, current account and insurance. The 4% drop in the quarter is attributed in general to seasonality in different products like cards and insurance. Even considering the more aggressive competitive landscape in a few products, we remain confident that fee revenue will continue to present a good growth level this year. Here, since we offer a full range of banking products and services, we recognize that it is important to understand the full relationship with each client.

Now let's turn our attention to asset quality. Short term NPL is stable around comfortable levels. As a matter of fact the 1.8% in the 15 to 90 days NPL of corporate and SMEs that we present to you in this quarter is the lowest level in our history. In the middle loans segment, the short-term NPL deteriorated 20 basis points due to the seasonality, the normal seasonality of the first Q and NPL over 90 days remained flat at quite reasonable levels. In our view, this performance is a clear evidence that our risk models are highly profitable, giving us confidence to keep on growing our business. Coverage ratio decreased to 195%, remaining at a comfortable level and preferably adequate to our risk exposure. Here back book and front book dynamics explain part of this evolution.

Moving to the next slide, loan loss provision, net of recoveries dropped 13%. This dynamic led to a substantial improvement in our cost of credit, reaching 3%, which is the best level through all past years. This combined with our good loan portfolio growth and fees evolution is an undisputable evidence that we are able -- that we are on the right track to keep on delivering a profitable operation.

On the slide 23, we analyze how expenses have evolved, in this felicitation of process continues among the bank's top priorities. We focus on cost discipline and (inaudible). Total expenses dropped by 7% in the quarter, attributed to seasonality in both personnel and administrative expenses. In the year-on-year comparison, administrative expenses grew 13% on the back of a greater level of transactionality and activity of the bank, while personnel expenses remained flat.

The next slide brings our performance ratios into the spotlight. All-in-all these metrics have strong revolution. The efficiency ratio improved almost 20 basis points year-on-year, reaching 39.8% below 40% level. The recurrence ratio totaled 88.8% in the quarter, achieving an all-time high level, a historical level in efficiency ratio here. Both ratios are top of the class compared to what we know today as public priorities. As I mentioned before, thanks to all these advances, return on equity kept the same 21.1% level in the quarter as in 4Q, the highest level since our IPO 10 years ago.

Moving to capital and liquidity, we continue to present solid numbers. Our funding stood at a comfortable level with our loan-to-deposit ratio of 92.4%. With these ratio -- (inaudible) ratio is at 15.4%, bringing our core equity tier 1 at 13.2%. As I have commented earlier, we have substantially increased our distribution of dividends, interest on capital in this quarter to BRL1 billion. It's almost double of what we were paying two years ago.

Okay. As we wrap things up, I would like to highlight that we remain committed to keep on delivering a solid profitability in responsible way, always considering our clients, employees and shareholders. To conclude, I share with you the main highlights. Total revenues growing 7% year-on-year, reflecting customer and profitability focus. Risk modeling, assertiveness shown by our asset quality indicators. Productivity consistently enhanced, leading to a better efficiency ratio and lastly a 22% net profit growth in the year, resulting in more than 21% return on equity for the first year.

In our view, these figures are undisputable evidence that we are well-positioned to keep on delivering solid and sustainable results. I would like to thank you, everyone that is attending the call and pass the word back to Andre Parisi. Andre, over to you.

Questions And Answers

A - Andre Parisi {BIO 21511610 <GO>}

Okay. Now we're going to take questions we received and the first one has played in two parts, is from Thiago Batista from Itau BBA. What are you expecting for SME loans and to the end of this year? Do you see the price competition in the acquired business impacting credit origination in this segment?

A - Angel Santodomingo {BIO 15757370 <GO>}

Thank you, Tiago. As I mentioned, on top of the seasonality effect is what we saw in the quarter on the year with SMEs is that they have being gaining momentum throughout the different last quarters in terms of volume. This probably goes with the economic activity and the need as we will go forward of new investment from this segment of the business. Now let me elaborate a little on spreads and because probably we'll have more questions here so I can address the spread issue. In the volume issue, what do we see at the NII level? What we see is that volume keeps on coming in specifically more on the retail side and less as we move to large corporates and corporates, probably because these large ones they have alternative funding ways, but again volume is still is there.

In terms of spreads, we've seen pressure in this by segment, but specifically also as we move to corporates and large corporates and there our policy is to keep on with the mindset focused on profitability. Specifically in SMEs, it is true that we haven't seen a strong pressure in terms of spreads. I don't see too much of a contamination coming from the acquiring market, that is probably more a discussion in terms of discount of receivables MDR and rental rates. But the point here probably the capacity of each bank and specifically for ourselves to position the product and the service with a wide range of offering for them. And SMEs at the end of the day depending on the size, because I mean SMEs are very kind of profound world, because you're speaking from the individual company, the (inaudible) company to company that may have close to BRL200 million of income of revenues.

But I mean in general terms, they need a full range of products. It is not about funding, funding is there, depending on the profile et cetera, but funding is there. It is more about how did you position the bank with them and this is where we are clearly putting the focus. We already reached, I mentioned last quarter more than 1 million clients here and we are trying to improve that part of the package of offers to offset potential churn, and/or the spread pressure in the future.

A - Andre Parisi {BIO 21511610 <GO>}

Second part regards Getnet, recently announced T+2 [ph] for some new low end clients, is possible to see an upscaling to SME clients for this price scheme?

A - Angel Santodomingo {BIO 15757370 <GO>}

Well, what we announced and what probably triggered part of what we are seeing today in the sector is what we have been discussing that could happen in the acquiring system, on the acquiring sector for a long time now for years. And I have been sharing with you during the last quarters, which is more competition and more trying to be more aggressive in terms of positioning each of the different products and services.

Let me show you what we did some weeks ago, is what we offered the possibility for the long tail for the segments that are close to the mass market, closer to the mass market, a T+2 capacity with a rate of 2%, both on credit and debit. It is the lowest offer today. It is profitable for us, it is clearly profitable. We have been obviously making the marks to make it profitable and it is profitable for the client. So we saw that there was a clear opportunity there and that is why we have gone into that. We're selling more on double what we use to sell in terms of POS and we're clearly linking much more clients. And what I would also like to underline here is that it is a transparent offer. What this means is that what we are offering to our clients is exactly what is being said in the offer. I saw I think it was yesterday by (inaudible), which is the association of small companies, an assessment by which how the different kind of marketing companies were being perceived and the one from Santander Brasil was clearly marked as transparent for the client.

So this is the offer. And what we are trying here is to position ourselves and you'll see more things coming in, in the next months and quarters. I am sure about that, positioning ourselves in this part of the segment, in this part of the market, in this segment, in terms of being able to capture profitable, the underling profitable markets there. So this is our study. We're not moving anymore in terms of additional offers for the time being and we really expect to have a nice growth rate here.

Last point here, so that I can address probably other questions around Getnet. Important point here is to understand, first, Getnet is part of our offer. Second, Getnet is integrated in the offer. It's not only part of the offer, it is integrated in the offer, which means that Santander clients tend to see that product as a novel product. So what we are trying here is to leverage the capacity of selling that product as well as we see other cellular products. And this is not new for you, because I have said this in past quarters, it is already some time I have mentioned this for a long time now, it is some time in which we have been investing in the net in two directions. First, diversification, you cannot count on one, two or three single sources of revenues. This has been an investment we have been making for some time now and I have said these with you, as I mentioned. Second, unit cost of operation. We have been investing strongly in being efficient, so that today, I may say that we have not only one of the lowest cost per unit in each of our transactions, which leads to the profitability I was mentioning before.

A - Andre Parisi {BIO 21511610 <GO>}

Okay. Next question is from Jorg Friedemann, Citi. Cost of risk actually at the lowest level in four years with NPL creation reducing 10% in Q-on-Q. How sustainable you think these trends are? Could we continue seeing additional improvement on cost of risk and asset quality trends, considering that retail represents more than 60% of the loan book?

A - Angel Santodomingo {BIO 15757370 <GO>}

Okay. Cost of risk and what is I think, I mean, this goes back a little bit, it goes back like five years already, but I think we have shown a strong capability in terms of risk models. I think this is a fact already, this is not something to come, this is not a compromise or it's always something that is being delivered, I mean, we continue to focus on risk models risk understanding, risk behavior, et cetera, et cetera, et cetera. But I think we can today say that we have a strong good risk modeling capacity. So yes, the cost of risk has gone down. And this has been at the same time that as you mentioned in your question Jorg , at the same time that the mix has been moving towards more retail, which is even stronger in terms of the capacity of the cost of risk being controlled and with a NPL formation that keeps on -- depending on the quarter at around 1%, 1.2%, 1.3%, 0.9%, 1.1% around one point something percent. So it's not about NPL formation, it's not about trying to lower the cost of risk. It's just that we have understood or we think we are understanding the way risk works.

Now looking forward, obviously the mix continues to change. We had some pressure there, but it has to do with mix. I don't see in each of the segments, a kind of iteration that I will have to underline to that. You get it up and down, you have different behaviors depending on the amount, depending on the kind of offers that you make, depending on the quarter, depending even geography, I mean you have all these kinds of behaviors that are difficult to understand if we -- meaning in a nutshell, in two minutes explanation or trying to answer your question. But again, NPL formation controlled, costs of risk controlled by segment probably going forward. Why not, depending on the mix, if you asked me this question 12 months ago probably I would have said the same thing, because it is true that the mix puts pressure here, but we have been able to couple [ph] with that.

And answer also to this is the country going into a lower cost of risk going forward. Well, that would clearly depend on the economic behavior, on these structural reforms agenda if they are achieved, how they are achieved and how they impact confidence and quality. For us, there is a clear valuable that is much more I mean that we have to watch closely which is confidence, in the world that confidence recovers or regains a positive trend. I will say that we will have volume expansion and good cost of credit.

A - Andre Parisi {BIO 21511610 <GO>}

Next question is from (inaudible). Thank you for your presentation. Your loan mix has changed substantially with individuals growing 20% year-on-year, consumer finance 18% year-on-year, while corporate is shrinking 4%. When do you think you will try to expand. This quarter your NII graph is still running below credit graph, can you comment on that please?

A - Angel Santodomingo {BIO 15757370 <GO>}

Well, I addressed a little bit on the spread side. What I see, I see means on the asset side with some pressure because of the spreads and at the same time it will go into volume growth more variables go into that direction that we put pressure on means. So again I don't want to repeat myself in terms of segments. I already elaborated on the different segments how they are evolving. In terms of NIM, I see more stability or even positive evolution on the retail side while I see the contrary as we move to large corporates. But again all segments will be different with a different pressure, with different behavior but with some pressure here on terms. How do we go compensate that? We will try to compensate, as I always say with NII coming from the deposit side from the liabilities. It's still not there but we are working on that and obviously profitability coming from fees. So it is still at the mix I mentioned that with quality, mix has changed. If we go back not only one year as you mentioned, you go back two, three years 60% of our balance sheet in terms of credit was retail and today is 72%. So we just had an intense or a sustainable change of mix, that, as I said before, we have been able to go through within a stable cost of risk or a low cost of risk.

But I would say going forward I see these forces stabilizing, agreeing with some difference in the coming quarters, but at some point, with economy let me put this hypothesis on the table, with economy growing and with the capacity that today is available, both in terms of unemployment and industrial capacity that is still below average. I think the total capacity is 76% compared to 80% plus that we have had in the past. When we close those gaps in the following, I don't know if quarters or (inaudible) plus we'll probably start to see investments coming back and then we'll see volume coming back again and probably time of balancing or stabilizing the difference in between retail and the corporate world.

A - Andre Parisi {BIO 21511610 <GO>}

Next question is from Mario Pierry of Bank of America Merrill Lynch. It seems that economic recovery this year is losing some momentum. At the same time, your asset quality is improving. How does that change your risk appetite? What kind of loan growth can we expect for the year? How do you describe the competitive environment in Brazil today and are there any concerns about fintechs becoming more active?

A - Angel Santodomingo {BIO 15757370 <GO>}

Thank you Mario. Okay. Economic environment and asset quality. I mentioned in my script, it is clear that the expectations of growth that the market had three, four or even two quarters ago have been reduced, I mean what the market was probably thinking in 2% plus, 2.5% GDP growth and today we're more in the 1.5% area, which means that probably volumes compared to what was thought these three to six months ago will probably be below that.

Here you have two things, I would say. You have first, the reality. I mean in nominal terms, GDP will be growing, I don't know somewhere around 6% plus, which means that volumes at the country level could grow above that, but still to be seen. But it was second point that I was mentioning is breakdown of that average. And the breakdown of that average is as you probably feel yourself, private banks clearly growing more than public banks. Public banks losing market share while private banks gaining market share. We are about to be 50:50 in the market set of both public and private compared to 57:43 that was just some time ago. And I wouldn't be surprised if those lines cross over with private banks being more -- having more market share.

So yes, I mean volumes are going to be growing probably a little bit less than what everybody expected months or quarters ago. The opportunity for private banks is still there. Is that affect appetite and asset quality? Well again, I go back to my previous words, I mean we are confident with our risk models. I mean as you see we have been growing as strongly in terms of risk segment. So let me say like that like finance, consumption finance. This is already four years, if so it's throughout the crisis and it hasn't shown alteration [ph] in terms of quality. So appetite will remain more or less where it is. Again, remember, we price credit by legally in terms of risk, we have all the models et cetera that I mentioned, I'm not going to repeat myself. So I don't see a strong argument here to kind of move from being very positive to very negative something like that. Santander has always mentioned this, has always been open for business. So we remain as we were one, two or three years ago in terms of appetite.

The last part of your question Mario was the competitive environment. Well, I mentioned the acquiring part of the business, which is more intense now. I wouldn't be surprised, but it is more intense now. I mentioned the spread. You have the fintech world. The fintech world is not new. I always have said that fintech world is an opportunity, both because it's good competition and second because it's good potential partners if we know how to leverage or partner with them, but this is, I mean if it not a bank, it's going to be a fintech, if it's not a fintech it's going to be one of the big communications or social media companies. I mean competition is going to be here, is going to be intense, is going to continue, good for that. We welcome that. It makes us better when you do not have a strong competition you'll become a little bit less aggressive, let me say like that or a little bit less worried about what is happening around you. So I mean quality again Fintech banks we can very good, very strong competition and we clearly welcome that. I have always shared with you that I also defend full competition, full flexibility in terms of regulatory leasings. So we are happy to see these things happening.

A - Andre Parisi {BIO 21511610 <GO>}

Okay. Now we're going to take questions by phone.

Operator

Thank you. The floor is now open for questions (Operator Instructions). Rafael Frade from Bradesco would like to make a question.

Q - Rafael Frade {BIO 16621076 <GO>}

Hi, good morning all. My question relates to fees, especially on the credit card fees, a very impressive 20% growth year-on-year and if I assume that acquiring business is probably growing less than that, it means that the insurance business is growing even stronger than that. So if you could elaborate a little bit on what's happening here in fact? And in addition to this while I look for the commission expenses relates to cards that you book on other expenses, it grew 50% year-over-year. So I would like to just understand a little bit what's going on, on the credit card business on the insurance side, what's the strategies here and how do you see this evolve. Thank you.

A - Angel Santodomingo {BIO 15757370 <GO>}

Okay. Thank you Rafael. Well, credit card business. Well, the answer, first and the obvious answer is yes, we have been growing strongly not this quarter for some time now. I think we have, I have said we use our studies here for some time in both current account and non-current account holders. On the non-current account holders, we were basically, I wouldn't say out of the business, but we were not intense and we have clearly moved that and changed that in the last couple of years. I mentioned in my speech we have, I think what I think not this is, comes from the Apple and the Android store. We have the best credit card app in Santander, in Brazil today, the Santander Way. Feedback and usage of that app is enormous. So it all leads -- we have different very good agreements like American Airlines, like all the white label agreements. So I mean, it all leads to a position in which we been able to strengthen and we are selling more than 400,000 credit cards per month.

So I mean, the activity and the evolution is strong, and we think we can keep on with that. Again, with completion with what am I mentioning, but I think we are positive in terms of how this kind of evolve in the future. And specifically because it's a very good opportunity to not only speak of non-current account holders, but to transform them, I don't know anything to current account holders or into other products. So the cross selling opportunity that I also mentioned in one of my slides is also there.

And a second part of your question has to do with our royalty area, I mean I think the investor relations team can give you more details, but it is a very simple movement in between lines in the P&L, nothing really to underline. That is a technical issue that investor relations will give you the details.

Operator

Mr. Jorg Friedemann, Citibank would like to make a question.

Q - Jorg Friedemann {BIO 15405752 <GO>}

Thank you very much. Just to try to understand a bit further the dynamics on provisions. And considering that you are part of a Spanish group, I understand that you already incorporate full IFRS to report to the parent. I was comparing the releases of IFRS and BR GAAP and noted that provisions under IFRS imply 17% to 20% higher levels versus the provisions under BR GAAP. It is already contemplating IFRS 9 by (inaudible). This question is just for me to understand in case this is something good for IFRS 9 the potential impacts that things could have. Thank you very much.

A - Angel Santodomingo {BIO 15757370 <GO>}

Thank you Jorg. Yeah, you are right. I mean we do present IFRS 9 in the what we call as Spanish criteria or in the group numbers and we do not follow BR GAAP here. Believe me that IFRS 9 is a little bit more complicated than a simple one minute answer, but I will try to little - I mean to you to understand. As you know you have three stages in IFRS 9. The more you grow, the more you provision upfront, but it converges with time. Okay, that's basically the main idea I want to share with you. So if you go all out, you will have kind of upfront provisions happening and that will lead to less provisions happening in the future. That's basically the main idea and the main difference. We have been working in IFRS 9 as I said already for three years now. We expect Brazil to implement IFRS 9 in the next, I don't know quarters or years. We will welcome that. And we are now fully prepared in terms of know-how and knowledge. I mean this is -- we used to when we started with this we used to run in parallel for a several quarters so that it could be addressed in the right way. So far this is the situation. When you compare criteria in terms of local and IFRS et cetera, taking the net numbers, it's a little bit tricky, okay because you do have other impacts, a little long to explain here now but you have other impacts that are not as simple that's just making the difference and that will be my main comments here. I mean it's a short answer, that is the alternative is really longer.

Operator

(Operator Instructions) Mr. (inaudible) from Credit Suisse would like to make a question.

Q - Unidentified Participant

Hi good morning. Thanks for taking my question. I have a question regarding the other NII. We saw very resilient performance of this line roughly around 2.5 billion this quarter, repeating the performance in previous quarter. How do you expect this to continue going forward? Should we expect a decline of this line going further throughout the year? Thanks.

A - Angel Santodomingo {BIO 15757370 <GO>}

Thank you, (inaudible) . I have addressed this in last quarter also, I mean I anticipated to you that I didn't -- I mean this depends on some volatility, depending on the drop in treasury activities from our investment banking unit that I remember to you this is separate from the ALF, from the capital remuneration and from the other revenues that we have in that area that have served during the past. But it comes to -- in the region -- I mean if you see the last say three or four quarters it has been somehow explained because of the offsetting of the different trends. It has to do with an acceptable position that we actually follow this with you also in the past. We sort of moved that. So difficult to estimate. I understand always the concept of those kind of rise and kind of right to some part of the analyst but for us it's part of the business as I have already argumented in the past. So stability is how we have been showing this in the past and to have eventually a strong movement. There will be volatility, yes, there will be volatility because it has some volatility elements within the line, but that's all I can say with the slide. I have nothing new although there were some doubts in the past, nothing new that I can say that is happening now and that will happen in the future.

Operator

Thank you. The Q&A section is over and I wish to hand over to Mr. Angel Santodomingo for his closing remarks.

A - Angel Santodomingo {BIO 15757370 <GO>}

I think that you are saying to me that we have a last question? Is that right?

Operator

Mr. (inaudible) would like to make a question.

Q - Unidentified Participant

Hi, thank you very much for picking the last question. Actually two questions, first as you mentioned your strategic interest on capital is higher than in the past. You are paying a BRL1 billion. Are you giving any indication for what your payout should be this year? And second I'm seeing you have an increase in goodwill, is that for the minorities of the net? Thank you.

A - Angel Santodomingo {BIO 15757370 <GO>}

Hey, Carlos, thank you, On interest on capital you're right I mean, remember in 2017 we moved from paying almost once per year, we paid an dividend in August and the bulk of it in December to our quarterly payment. That was a move we wanted to make with the market. We started paying BRL500 million per quarter in 2017. That was moved to BRL600 million per quarter in 2018 and the Board has approved BRL1 billion this year at the first Q. Theoretically and this is up to the board I am not going to anticipate what they will be either discussing nor of course deciding, but theoretically we follow patterns from last year's issued keep on the same quality by quarter.

Now payout, well, we can work around 50% payout. That will be probably our idea today, which means we will maintain return on equity where they are and growth of risk-weighted assets of around, I don't know close to 10%. That gives us an idea of 50% payout ratio to keep on with the same capital ratio. So around there probably is a good guideline and minorities operating net I didn't understand the second question but I mean they have been bought. We executed the - we announced the 11% acquisition, so we have 100%. I think we are expecting still some small authorization. I'm not sure if it has a 100% approval or not, but this is a pure regulatory process. So it's nothing it's already agreed and we are there. Okay.

Well, I think with that we end the Q&A session. Thank you for your questions. Thank you for your participation. I am quite happy to serve with you another set of results, another strong set of results and profitability. And I look forward to speaking with you next quarter results in next quarters. Thank you.

Operator

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