Q2 2017 Earnings Call

Company Participants

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

Other Participants

- Carlos Macedo, Analyst
- Jorg Friedemann, Analyst
- Mario Pierry, Analyst

Presentation

Operator

Good morning, and thank you for waiting. Welcome to the conference call to discuss Banco Santander Brasil SA's results. Present here are Mr. Angel Santodomingo, Executive Vice President, Chief Financial Officer; and Mr. Andre Parisi, Head of Investor Relations. All the participants will be on listen-only mode during the presentation, after which, we will begin the question-and-answer session when further instructions will be provided. (Operator Instructions) The live webcast of this call is available at Banco Santander's Investor Relations website at www.santander.com.br/ir, where the presentation is also available for download.

We would like to inform that questions received via webcast will have entering 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 Santander Brasil's second quarter 2017 earnings conference call. This past quarter, we had several important achievements which will be presented by our CFO, Mr. Angel Santodomingo.

So let me it turn over to Mr. Santodomingo, please.

Angel Santodomingo {BIO 15757370 <GO>}

Thank you, Andre. Good morning, everyone and welcome to the Second Q results of Santander Brasil's Second Q results. I will address these results through five topics, starting with the key messages in the Santander Group's results, with a quick snapshot about the macroeconomic scenario, which will be followed by the highlights of the -- of this quarter of Santander Brasil's quarter and finally to wrap it all up, I will go into conclusions.

So moving to slide four, on the commercial front, we continue to improve. As such, I would like to draw your attention to the strides we have made this past quarter. Payroll loans, the Ole Consignado brand has been an important element to our success, playing a significant role in our market shared expansion process. At the time, our internal channels sorry, has also performed well.

Getnet remains one of the main pillars of our commercial study, its revenues are growing at a fast pace and we continue to grab our market share, while keeping profitability at healthy levels. It is worth bearing in mind, that Getnet importance goes beyond its acquiring services. We consider it a crucial component of our plan to leverage the Bank's revenues.

Cards, once again, we had a very good performance in both credit and debit cards, in fact, debit cards are growing at 22% for example. We are still optimistic about our prospects in this business as second Q '17 marked the start of our actions as the sole issuer of the American Advantage, American Airlines cards in the country. Agribusiness, as I have mentioned in the last few quarters, we are making strong efforts in this area. The market share gain is a clear indication that we have adopted the wide strategy to expand our base of agribusiness clients.

SMEs, what strengthens our position in this segment goes beyond our financial offerings. We provide our unique non-financial platform, Avanzar program that helps entrepreneurs in their business. This land mark initiative helped us win -- Euromoney's award for best banking award for a small and medium sized enterprises.

Super digital, we have reached 1 million clients who are a 100% digital. GCB, our wholesale unit, we continue to hold leading position from several different firms, including ECM, Equity Capital Markets, project finance and products. And lastly, consumer finance, our unique platform for car dealers is revolutioning the dynamics of the car financing industry in the country. As a result, we have been capturing market share at a consistent and fast pace without jeopardizing the asset quality.

Before jumping to the next slide, I would like to highlight that we have entered into a purchase agreement to acquire a 70% stake of Ipanema Credit Management. Ipanema is a master servicer, offering a specialized platform for credit recovery management. The Company has a proven expertise in this field, including a sophisticated system that allows for daily monitoring and collections performance management, which should contribute to a more efficient credit recovery process by Santander.

So next slide, we have focused on -- delivering user experience improvements for our client base, since we see customer satisfaction as the cornerstone of our strategy to keep growing in a consistent and sustainable manner as I have shared with you in past quarters. Looking back at the progress we have made in this front, I would like to highlight the following. The Santander Way app continued to rack up impressive achievements, which with more than 6.5 million downloads, new tools and best-in-class rating -- almost 5-Star rating in the app stores. And it has NPAs, our net promoter score around 80 points which is extremely higher.

Our successful Consumer Finance digital platform expand into consumer goods and services, leveraging our proven knowhow and expertise in that field. We unveiled a brand new digital mortgage platform, allowing for a more user-friendly experience for our clients with a straightforward processes. We are implementing the net promoter score methodology in our retail network. All these innovations to increase customer satisfaction, help expanding our base of loyal, digital and active clients translating obviously into higher transactionality and fast profitability.

Key message of next slide is that, we have met (inaudible) ahead, our publicly established goals for December '18, except obviously those revealed to number of times that in anyway are, with the right speed to meet the objectives at due time. In first semester '17, we have also met our efficiency ratio guidance, reaching the best level in the past five years, a guided result of increased productivity and lean mindset.

Profitability wise, we have maintained our return on equity above guidance throughout the first half of 2017 at 15.9%, which is the evidence that Santander Brasil has accelerated to a new level of profitability. As you all know, last Friday, Santander Group announced its earnings for the first semester, reporting a net profit of EUR3.6 billion or BRL13.2 billion. The results of the Brazilian unit are important for the Group as a whole. In fact, Santander Brasil accounted for 26% of the Group's earnings in the semester.

Going to the macro -- on Brazil's macro scenario, simpler message here is that, we believe the economy is moving in the right direction. Domestic inflation continue to trend lower, creating room for aggressive interest rate cuts and therefore, cultivating [ph] to the leveraging process of businesses and individuals.

Moreover, also we have gone through some volatility in this quarter, we expect to see an upward trending industrial activity, given that we have already witnessed the following points, the end of inventory adjustment cycle, and a stabilization of the real household income and easen monetary policy, an improvement in the terms of trade and a strong expansion in agricultural, in the agro production. All in all, we see GDP gradually gaining momentum during the next 18 months.

Okay, so now going into the next part, let's begin examining Santander Brasil's second Q '17 results, as I mentioned in the slide 12. To start things off, I would like to highlight our improvement in profitability during the first half of this year, in line with our commitment to deliver consistent and sustainable earnings growth. The achievement of these milestone was the result of our well established strategy reflected into improvements in our P&L operating leverage, meaning that we manage to maintain costs and provisions under control, while revenues, while revenues has started to enjoy strong growth.

On slide 13, the next slide, we bring you some details of our performance in the first half of this year. Our recurring growth rate is explained by a host of factors. But just to name a few, bigger customer loyalty resulted in higher transactionality and led to increased revenues underpinned by a solid liability management plan. Asset quality provisions were kept under a strict control as has been in the past quarters' yields [ph]. The efficiency ratio reached its best level in the past five years. The loan portfolio show growth in both the individual and consumer finance segments. And finally, we maintain capital and liquidity at comfortable levels.

So next slide as we have always said, we strive to keep improving our bottom line every quarter, this is the 13th out of 14 quarters in which we have delivered earnings growth. In the first half of this year compared to the same period of 2016, our net profit increased by 33% which confirms our view that we are on the right track to keep delivering sustainable and resilient results. As I stated before, Santander Brasil's net profit totaled 2.3 billion in second Q, 2.4 higher than the previous quarter and 29% above second Q.

On slide 15 represent the main lines of our results about which I will go into more detail later on. On the revenue front, net interest income registered a 2.6 rise over the first quarter of -- 2016, and an almost 17% increase relative to the first half of 2016, highlighted by an excellent performance from the deposit NII, while market activities and credit NII also delivered solid figures.

Reflecting higher transactionality fees advanced in the quarter and experienced a strong growth on a year-over-year basis, 21%, reflecting excellent number -- numbers on current accounts, credit cards and insurance among others. On the expense side, allowance for loan cost increased at a controlled pace of 4.3%, Q-on-Q, but decreased by 6% compared to first semester last year. General expenses went down 1.7% based on the previous quarter and even so it climbed 6% year-over-year in first semester, we remain confident that different initiatives in this front should contribute to maintain expenses under control.

So all in all, we had our P&L growing nicely, on the revenue side we've controlled costs both operating and trading quality, thus improving our operational leverage. As a result, net profit totaled 4.6 billion in the first half of this year. I will elaborate on each line in these following slides. Slide 16 shows the evolution of our net interest income or NII, which came to 9.1 billion in second Q '17, 16.5% higher than second Q '16 and almost 3% better than first Q of this year. I will highlight credit NII, which went up 7% in the quarter, reflecting wider spreads due to better pricing and a change in mix. As the individuals portfolio grew nicely, while the corporates & SME [ph] contracted in the period.

Revenues from funding, which suffered a slight decline in the quarter, but still had a good performance when we consider the fact that the SELIC rate has been decreasing at a fast pace. In the year-over-year comparison, revenues from funding were 45% higher in first semester on the same period of last year, clearly indicating that the liability management plan that I announced to you already one year and half ago approximately, a couple of years is showing a positive impact on the P&L. And finally, market activities under the others line had another solid quarter, reflecting the hedging capacity against lower SELIC rates.

Next slide, we look into the loan portfolio. Our expanded loan portfolio increased by 5.4% in the year and remained stable in the quarter at BRL325 billion. It is important to note, that also Brazil's economic environment is undergoing a gradual recovery, we have already been witnessing positive growth rates involve the individuals and consumer finance portfolios this year. The individuals' portfolio continued to deliver a resilient performance expanding by 3.6% over the previous quarter and -- by more than 12% in 12 months. Payroll lending, rural and personal loans were once again the main growth drivers.

Once more this quarter we must highlight the performance of the consumer finance segment, which advanced by 3.4% Q-on-Q and 16% year-on-year, notable figures considering the still poor conditions in the other sector. This improvement has been fueled by the implementation of our disruptive digital platform that I have mentioned in previous quarters, which has spurred significant productivity gains for the business and about which I have said details already.

The SME portfolio remained stable in second Q '17. We believe that our combination of commercial focus on more compelling offers under a better macro scenario helped and paved the way for portfolio expansion. And finally as I mentioned, the corporate portfolio decreased by 5% in second Q, partially reflecting the strength of capital markets.

On Slide 18, you can see how our funding has evolved. Positive growth in demand and saving deposits gained reflecting more engaged clients. During the quarter, time deposits increased by 30%, while debentures showed an 18% decline, reflecting the impact of Brazilian Central Bank resolution, which went into effect in early May, establishing the end of repos, involving securities issued or guaranteed by related parties.

Additionally, we have been proactively reducing the amount of financial bills, letras financieras, which suggests a better cost of funding going forward. We estimate this trend will continue. The trend of a lower amount of letras financieras. Finally, total funding reached 565 billion this past quarter, growing 2% Q-on-Q and 8.5% year-on-year.

On next slide, as we had been saying since 2016, 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. Comparing the first half of this year to the same period over the previous one, total fee income jumped 21%. In the quarter, fee revenues climbed 2% with good performances from current accounts and insurance services. Fee products with a highest growth rates were current account, credit card and insurance.

Now, let's turn our attention to asset quality in the next slide. As anticipated last quarter, short-term NPL fell by 17 basis points in second Q '17 reflecting seasonality and positive trends in both individuals and corporate segments. NPL over 90 days remained stable in the quarter at 2.9%. Corporate NPL remained under control, while the individuals segment delivered NPL improvement and the slide has another one, for the fifth consecutive quarter.

In our view, these figures are undeniable evidence that our asset quality remains controlled, sound and at comfortable levels. This plan continues to reflect the strength of our risk modeling and confirms that the actions taken in recent quarters were appropriate to preserve the quality of our assets. To further corroborate this statement, it should be noted that our coverage ratio stood stable at 229%, which in our opinion is quite a healthy level.

In the next slide, you will see that loan loss provisions, net of recoveries totaled 2.4 billion in the second Q, representing a 4% Q-on-Q increase and 6% lower on the same period of 2016. It is worth noting, that the lower income from credit recovery was partially offset by a decrease in allowance for loan losses, indicating a high quality of our portfolio. Also the cost of credit grows by 10 basis points to 3.2%, we still consider it controlled and comfortable level.

On slide 22, we analyze how expenses have evolved. As we had been stating continuously Santander Brasil continues to focus on cost discipline and lean mindset. In line with this, our total expenses dropped by 2% in the quarter. In the first half of this year, expenses grew 6% year-on-year, mainly explained by an increase in personal expenses. Let me remember you, that wages show an 8% rise in third Q last year due to the collective bargaining agreement which we have managed to adjust to 5.8% in first semester. Looking ahead, we expect cost growth to be around inflation.

The next slide brings our performance measures into the spotlight. These metrics have also shown great progress. The efficiency ratio continued to improve, reaching 44% in the first semester, a remarkable achievement and improving almost 5 percentage points from first semester last year. In the quarter, the ratio continued to improve and reach the best level in the past five years.

Our recurrence ratio rose to 81, almost 82% in the first semester versus almost 10 percentage point less last -- in first Q '16, 71.7%, thus bringing more predictability and resilience to our results. In the first -- sorry, in the second Q this year, the recurrence kept its upward trend and reached 83%, thanks to these advances, return on equity remained healthy and above our 2018 guidance throughout the first semester, despite the challenging macro scenario in the country. In the quarter, the profitability level remained literally flat compared to first Q '17, but still at higher levels and good levels compared to the past. We reiterate our commitment to continuously enhance our profitability.

On slide 24, you will notice that our liquidity and capital remain at sound levels with a stable funding sources. The loan to portfolio ratio stood at a comfortable 85% in second Q, while the BIS ratio increased to 16.5%. Capital ratios remained solid with core equity 1 level of 14.5% in tier 1 as you see in the slide, up 15.4%. So let me go to the final slide and as we wrap things up, I would like to bring your attention to the highlights of this first semester.

The return on equity of 15.9% in the first half of 2017, showing a substantial improvement in this year and remaining above our guidance for 2018. Strong revenues reflecting client activity and effectiveness of our liability management plan. Asset quality under control. Evidencing our excellence in risk modeling. Greater productivity remains at the top of our priority list as our efficiency ratio has -- reached sorry, the lowest level in five years.

Commitment to delivering improvement in customer satisfaction and user experience, coupled with private and partnership innovations allow us to continue growing net interest income, NII and fees. The goals we set out to achieve in December 18 are being accomplished on an still basis and we remain well positioned to deliver sustainable -- return on equity improvements powered by our well-defined business study, organic growth and disciplined capital deployment.

Thank you for your attention, and I think we're now ready to answer your questions.

Questions And Answers

Operator

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

A - Andre Parisi {BIO 21511610 <GO>}

First question from Tito Labarta, Deutsche Bank. Was the sensitivity of net interest margin to interest rates, NIM has expanded even though rates have declined. At what point will lower interest rates have a negative impact on NIM?

A - Angel Santodomingo {BIO 15757370 <GO>}

Thank you, Tito. Well I would say that the evolution of the NII, I have delivered our view with regards to this part of the P&L. Our sensitivity, we have shared in previous occasions, it's around BRL300 million, like $100 million positive to 100 basis points decline in interest rates. Okay. So that's one of the reasons why you see that other NII growing, which is the hedging capacity that we have for this trending lower SELIC that we have seen in the country.

As I have always said, I mean, both speaking of NII and NIM, we have here different forces. The asset side, we have had a good quarter as you have seen, specifically more in price and volume, but okay in both of them, which is helping a nice earnings growth and a nice increase on -- even with lower SELICs.

Now on the liability side, it's already, I do remember it's like six quarters or seven quarters that I have been sharing with you, the liability management plan that we started one year and half a ago and it's clearly given results and we considered by not only the NIM, but also the amount of NII that we are generating. We are generating, it's I think it's like three-fold, what we'd used to generate as a quarterly average three years ago.

So it's three times in a quarterly basis with a SELIC that is clearly lower than NIM. So that shows the improvement we are doing on the liability side. And finally, what I said, the hedging capacity, that I started my answer by giving you the numbers. So, we always depend on the evolution of interest rates going forward and the duration of those decreases and where it stabilizes, but I don't see pressure for the time being.

A - Andre Parisi {BIO 21511610 <GO>}

Okay. Next question comes from Tito again. Term fees continuing to grow in double-digits for how long, what did drive the growth?

A - Angel Santodomingo {BIO 15757370 <GO>}

Well, fees, you are right. At the end of the day, our guidance was to grow double-digit, which means above 10%. Obviously, 20% or 24% is double-digit, but is stronger than what we normally understand as double-digit. This is a clear consequence of linked clients. I mean, this is the study I already have shared with you several times that, I mean, the message of having engaged clients, satisfied the clients, linked clients is kind of an stable message, let me say like that. But it is our key strategy focus and that means, different things in the P&L and probably one of the clearest are fees.

And if you analyze fees, I mean, what are the fees that are increasing or strongly increasing within all these -- the breakdown of the fees, it's a clear reflection of what I'm saying, I'm speaking of current accounts, I'm speaking of credit cards, I'm speaking of insurance, I'm speaking of all of our NIMs transactionality.

So, obviously we're going to maintain our view that double-digit is going to be there, but as we maintain the capacity of having our clients improve in how they see the Bank and how they use the Bank, this is a line that should reflect that effort. The guidance continues to be the same one, double-digit, and I'm not going to change that now. But I think that the results speak for themselves.

Operator

Mr. Carlos Macedo from Goldman Sachs would like to pose a question.

Q - Carlos Macedo {BIO 15158925 <GO>}

Hi, good morning. Thanks for taking questions. On the back of that question on margins, I have a question on your credit spread. 9.4%, a big increase over the first quarter, maybe some seasonal factors in there, but more importantly, about as high as it's been. Where do you think that goes going forward? Is there -- is that still the repricing of the back book? Is there still room for that to expand or will that start trending downwards now with rates coming down and putting pressure on spreads in the industry? Thanks.

A - Angel Santodomingo {BIO 15757370 <GO>}

Thank you, Carlos. It's a good question. I mean, you're right. The expansion in the quarter was strong and it was basically explained by pricing obviously, but also by the change of mix. If you go to the amount -- how the amounts are varying, both annually and specifically in the quarter, what you have seen is that, we have good growth and good growth means above 3% in the quarter, which is double-digit annually. Good growth, what is individuals, both the individuals are themselves growing in, what we call here, payrolls or grow in the rural, grow in the agrobusiness I mean and also in auto loans. But in -- at the same time that that grows nicely, SMEs are flat, but big companies or large companies sorry, large companies have a 5% decrease on the quarter.

So the mix that how it is changing, that means, is one of the main reasons of that spread increase along with pricing obviously. We are obviously managing pricing. The good thing here to underline is not only this NIM expansion in the spread, et cetera, the good thing here is that credit quality is controlled. If you see cost of credit, it is totally controlled or even improving in some cases, if you analyze the last quarters, which means that we are changing the mix or the change in every mix because -- is being changed because -- the mix is being changed because the large corporate is obviously, they are -- they have capital markets open, et cetera with the control cost of fees.

So the NIM net of risk is clearly improving, which is the value I always say, we view that, we should also follow. Going forward, I would not expect such big changes in the space, basically because what I would expect or see in the future is that, companies in general terms, not only SMEs, but also going to the larger companies should pick up volume or should recover part of that space lost in terms of volume. And that would offset a little bit this spread expansion that I am mentioning. But the discussion around NIM going forward is a good discussion. Thank you, Carlos.

Q - Carlos Macedo {BIO 15158925 <GO>}

Okay. Thank you.

Operator

(Operator Instructions) Mr. Mario Pierry from Bank of America would like to pose a question.

Q - Mario Pierry {BIO 1505554 <GO>}

Good morning. Congratulations on the results. Let me ask you two questions. The first one is related to loan growth. We continue to see Santander gaining market share, even though the macroeconomic environment for Brazil remains very uncertain. So again you show that asset quality is stable, under control, but what makes you comfortable to be gaining market share, given all the uncertainty in Brazil?

The second question is related to your current account fees growing at a very rapid pace, almost 40% year-on-year. We understand here, as you have been increasing loyalty of your client base, but can you explain to us also how much of this growth is related to price increases if you have been able to increase prices and how much has it -- does it have to do with an increase in the client base? Thank you.

A - Angel Santodomingo {BIO 15757370 <GO>}

Mario, thank you for your second question, for your two questions. Sorry, can you repeat the second one? I didn't get it quite right.

Q - Mario Pierry {BIO 1505554 <GO>}

The second question is related to the growth in current account fees, growing 35% year-on-year. How much of that is related to prices and increase in number of clients?

A - Angel Santodomingo {BIO 15757370 <GO>}

Okay. Loan growth and markets, et cetera. Yeah, you're right. I mean, we are grabbing market share. The strategy here is very clear. Profitable market share. That's the first thing I would like to share with you. So the Bank does not have an objective by itself in terms of size, in terms of grabbing market share. This is not the idea. It will all -- we will only gain market share, if that means, increased profitability. And as you mentioned, that is what it is happening.

Probably we have to go a little bit into the retail, because it cannot at least ends up in a very kind of general statement. So, if you analyze the different parts in which we are growing, we are growing either because we are filling gaps in which we were underpenetrated and that is for example, agro or SMEs are two good examples. In the agro business in the corporate side, we gain almost 400 basis points of market share in the last year, but I mean, as you remember and as you know, we have been very -- quite below our natural market share in this business. I mean, our market share has been like 3% for a long time.

So I mentioned to you that we were starting in agro, a new department or strengthen department and the strategy to clearly grow there, that was announced like one year, one year and a half ago and you're starting, just starting to see the first consequences of that kind of a strategy. The Bank has traditionally tried to do this, but now, it is clearly yielding results.

In SMEs for example, I mentioned we have an offer that is not only financial and this is important to understand. What we offer today to an SME are several things. First, if the SME is very small, we offer there were millennials, there is more POS, and if it is larger, we offer them the acquiring full service, getting the full service. But on top of that, and of course, all the financial products and services as you can imagine, we offer also to them all the qualitative services like job searching capacities, training, export/import, export/import from the side of knowing what to do and knowing how to do it, bureaucracy simplification processes.

So, I mean, we are trying to position the Bank as, I mean, we have some body that you could, I mean, we could -- we come and help you. Credit cards, for example, both in the current account and non-current account client, we are growing in the debit side, 22%, 22% on the debit side. This is clearly another way of saying that we are improving the number of linked clients, the transactionality. The client that does debit is the client that, I mean, the Bank who with which it has debit is the Bank with which it has the liabilities, it has the relationship, it has the transactionality. Clearly, it is growing much more obviously but it's important to underline that.

Payrolls. I mean, we have been -- we'd used to be out of the business. As you remember, because it was obviously non-profitable, we re-engineered it through internal and external channels and today, we are already at a market set towards to our natural market share in production. So to -- why is loan growing? Because of all what I'm saying to you, and we expect we have shared with you I mean, we expect low numbers in terms of credit loan portfolio, credit offer for this year. But we expect to continue enlarging or capturing market size, because of our policy, not because we want to be larger or arguments of this kind.

In terms of current account, your second question, I would say it's clearly, again the same argument. Obviously, you always do fine-tuning, you have pricing gaps in some parts of your client -- clientele or you have groups that were not placed, et cetera, but I mean, I would say that the answer to, because I cannot say a 100% obviously, but the vast majority is clearly usage of the Bank. It's not another type of policy.

Q - Mario Pierry {BIO 1505554 <GO>}

Perfect. Thank you very much.

Operator

(Operator Instructions) Mr. Jorg Friedemann from Citibank would like to pose a question.

Q - Jorg Friedemann {BIO 15405752 <GO>}

Thank you. Good morning, everyone. Thank you for talking my questions. So the first one, your approach in the end of the heavy goodwill amortization following the acquisition of ABN AMRO years ago. So with that, it is natural to expect a pickup in the effective tax rate. So, could you comment on your expectations for this rate going forward and how higher payment of interest on non-GAAP or the activation of tax credits could mitigate a significant increase of the tax rate in the second half of '17 and 2018? This is the first question.

And the second question, I noted a number of maybe one-offs in these results that has negative impact, although we did not label those as one-offs. So could you please comment in how you see the progression of some of these line items. And that you have mentioned some of those. First, I noted that in the second -- in the last two quarters, your non-operating results increased substantially, probably due to accounting revelation of your foreclosured assets are based (inaudible). I also noted that you changed their methodology of booking provisions for labor and seasonal contingencies.

And finally, in this past quarter, I saw significant drop of recoveries of more than 30%, I think it is the lowest level of recoveries in the last two years. So how you see the progression of earnings once you normalize some of these line items? Thank you very much.

A - Angel Santodomingo {BIO 15757370 <GO>}

Sorry. Thank you, Jorg. I will try to address both questions. On the tax rate, you are right. I mean, we are finalizing the goodwill amortization of Banco Real, which is basically the goodwill we have. Also, we have a little bit of all things in sometime during the first Q. Now, that linked to what would the tax rate look like going forward. You have seen during this first two quarters, we are already with a higher tax rate. I would assume that the tax rates should be somewhere around the 25% to the 30%, somewhere around there. Please, do not consider this as an exact guidance, because obviously these things vary.

You are right that interest and capital play a key role and we will obviously try to optimize it going to the end of the year. As you know, the board has approved a second quarter dividend of 500 million. So we did -- the board did it in the first Q, announcing 500 million and another 500 million had been announced in the second Q. So it looks like the board is going towards a quarterly dividend payment, interest on capital. So again, trying to optimize the tax situation, but in general terms and I think, we haven't looked too much from this sustainment in the last couple of years. We should trend to the levels I mentioned.

Other results, other non-operational results. Yes, you do have a little bit of everything there. You mentioned quite good, the different points. I would underline there several things. First, you do have things accounted there that are linked to the activity. And I mentioned and there are things like credit card costs in different parts of the bandidos, that we call here the MasterCard or the Visa whatever it is. You also have their costs linked to pay the loans and missions from the (inaudible). So as we are growing a lot in all those parts, you also have some growing part, even the evolution of the business. So accounting wise, they are included in that line, also as I say, they are linked with the operation itself and with the activity of the business.

Now secondly, you mentioned also (inaudible). Yes, I don't think this is a kind of a significant one, but I mean this follows Central Bank criterias et cetera. So we adjust our criterias toward authorities kind of direct. Third point, you mentioned, assets, real estate assets and the like. We have made a provision there this quarter, one-off, which is linked to the amount of time that the assets are expected to be sold. This amount of time has lengthened and this obviously when you lengthen the amount of time, the present value is lower and you have to provision. We do it annually, so no big issue here. We do not expect to do a significant amount going forward, it's just this annual analysis that we make.

And finally, you mentioned also recoveries. Yeah, it's true that in this quarter we have a lower amount of recoveries. As you know, this is also linked to the amount of portfolios that are sold throughout the quarter. You have quarters more intensive, quarters less intensive. This was one of the less intensive ones. This is not a business in itself in terms of trying to achieve certain objectives, but obviously, we continuously optimize the amount of portfolios that we want to sell. So it's a long answer to a short question, but this is the typical line in the P&L that I prefer you to understand and to have a good transparency so that you can understand it.

Q - Jorg Friedemann {BIO 15405752 <GO>}

That's perfect. Thank you very much.

Operator

(Operator Instructions) Thank you. The Q&A session is over, and I wish to hand over to Mr. Angel Santodomingo for his closing remarks.

A - Angel Santodomingo {BIO 15757370 <GO>}

Okay. Thank you so much. I will just like to say that if there is any question that has been not addressed, we are open investor relations team and myself, obviously to try to answer it. Thank you for being there and I look forward to seeing you all in the -- during the next Q results. Thank you.

Operator

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