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Q3 2018 Earnings Call

Company Participants

- AndrÃ© Parisi, Head of IR
- Angel Santodomingo Martell, Executive VP, CFO & Member of the Board of Executive Officers

Other Participants

- Domingos De Toledo Piza Falavina, Head of Latin America Financials
- Jorg Friedemann, Director
- Luis Fernando Azevedo, Research Analyst
- Rafael Frade, Research Analyst
- Thiago Bovolenta Batista, Research Analyst

Presentation

Operator

Good morning. And thank you for waiting. Welcome to the conference call to discuss Banco Santander (Brasil) S.A. Results. Present here are Mr. Angel Santodomingo, Executive Vice President, Chief Financial Officer; and Mr. AndrÃ© Parisi, Head of Investor Relations.

(Operator Instructions) The live webcast of this call is available at Banco Santander Investor Relations website at www.santander.com.br/ir while 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 this conference call relating to business outlook of Banco Santander Brasil operating and financial projections and targets based upon the beliefs and assumptions of the Executive Board as well as on information already currently available. Such forward-looking statements are not 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 forward-looking statements.

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

AndrÃ© Parisi

Good morning, everyone. It's a pleasure to greet you to Santander Brasil's Third Quarter '18 Earnings Conference Call. We had another good quarter. And the highlights will be presented by our CFO, Mr. Angel Santodomingo.

So please, Mr. Santodomingo.

Angel Santodomingo Martell

Good morning, everyone. This is Angel Santodomingo. You've got the main -- I mean, the index that I will be going through, as in other quarters, starting with key messages and group results, Santander group result that were presented today in the morning and following by the macro and, specifically, third Q results highlights and then wrapping up with my final remarks.

So in the first slide, the first idea is to show you that we are pleased to see that our net profit continues to grow. We reached BRL 3.1 billion in the quarter with a 19.5% return on equity, repeating the highest level since our IPO, which is a clear result of the (steps) we've been carrying out. And obviously this has happened in an environment with changes and with the country probably focused -- attention focused in other different places. In the first Q, we have distributed BRL 600 million, which adds up to the previous BRL 1.2 billion so -- to a total of BRL 1.8 billion year-to-date and as always, I assume the board will be announcing by year-end the bulk of the payment in terms of dividend.

Next slide. This will be levels of profitability as supported by client and employee good performance. Customer base increase in different perspectives, active, loyal and digital. And this is a clear result of our efforts towards improving customer experience continuously. As I already mentioned, customer satisfaction is the cornerstone of our strategy to keep growing in a consistent and sustainable manner. We keep track of our efforts through the NPS, the Net Promoter Score, that I have been sharing with you for the last -- this is the First Quarter, for the last 2 quarters. And as you know, which we measure on a daily basis in all our branches and service. In the quarter, our Net Promoter Score kept its upwards trend, reaching 55, plus increasing 4 points. As you know, moving this indicator up, as shown, requires a strong effort from the organization. But I have to say that we are clearly on the right way.

Next slide, profitability, clients, employees, all this lead us to market share gains, profitable market share gains. We keep fast focus to gain profitable market share in both assets and liabilities. Based on this idea, I would like to underline the performance of the following products: payroll loans, almost 10% market share, reflecting the good performance for both distribution channels, both external and internal. The successful digital platform has certainly contributed to this achievement; cards, differentiated products and the best credit card up in the industry helped us present another good performance in the quarter; vehicles, the digital platform combined with the risk-based pricing remains the backbone of our success. Moreover, the Cockpit platform, a multidisciplinary platform which gathers solutions to enhance the entire car buying and selling journey, has been key to support our position in this business; SME, we have already reached 1 million clients for the first time. The improvements in the platform and customer satisfaction are essential to keep our client base growing; Getnet, even considering a more competitive landscape, which is the case, we keep gaining market share at a profitable level. It is worth bearing in mind that Getnet's importance goes beyond its acquiring -- only its acquiring services. We considered in approaching a component of our client delivery to the bank's deliveries; and last. But not least, our agro business, our expansion process continues on track, being part of our expansion plan to the inner part of the country.

Next slide, all this is obviously based on better and more industrialized processes. In response to not only more efficient processes. But also reflecting the strong commitment on costs, our efficiency ratio has reduced significantly over the past year. Looking forward to the Brazilian banking industry, I think -- we think that efficiency will be one of the main variables which will differentiate banks.

Moving on to Santander group results. Santander group, as you know, because it was presented already today, net profit for the first semester reached EUR 6 billion, equivalent to BRL 25 billion. This quarter, Santander Brasil represented 26% of the group's earnings, showing relevance of the Brazilian subsidiary results for the Europe.

I will not elaborate too much on the macro side because I think it will now -- and given all the changes. But once the country's political uncertainty has disappeared, a positive economic cycle could strengthen in the future. A country with controlled inflation, low interest rates, the strongest external accounts and transfer structural reforms should outperform in the coming future.

So now moving properly to the results highlights. As you can see, net income amounted to BRL 3.1 billion, roughly 3% higher than the previous quarter, which was close to BRL 3 billion. And 20% above third Q last year. Results for the nine months for the Q are 25% above the same period of last year. We have been growing consistently our net profit on q-and-q -- on a q-and-q basis for the -- for five years in a row. This is a clear result of our loyal customer base and transactionality increase, coupled with an accurate risk model and increased productivity.

On the next slide, we present the main lines of our results, about which I will go into more detail later on. Before that, on the revenue front, a positive trend on net -- on NII, or net interest income, increasing 1.6% over the Second Quarter of 2018 and 12% relative to nine months of last year, reflecting a good performance from credit liability and collars. Fees posted a mixed dynamic. For (inaudible), a solid 10% year-on-year. It decreased 3% q-on-q, reflecting the abnormally high level of uncertainty ahead elections and pricing fine-tuning.

On the expense side, allowance for loan losses remain in control and grew at a slower pace than the NII on both q-on-q and year-on-year. General expense is growing around inflation levels as premised. As a result, net profit totaled BRL 9 billion in the year so far. So let me elaborate on the different -- on the next slides on the different numbers.

Slide 15 now shows our main net interest income evolution, which came to BRL 10.6 billion, 8% higher than first Q 17% and 2% compared to second Q this year. Main highlights, trade

NII remained virtually flat in the quarter. Also, the loan portfolio grew. The spread narrowed, reflecting mainly regulation changes and -- oh, I'm sorry, revolving credit cards. Revenues from funding kept its expansion process and grew 6% q-on-q even with the maintenance of the Selic rate at its lowest level. The other scores are a quarter in line with the average of the last year.

Next slide, look into the loan portfolio. Our expanded loan portfolio increased by 13% in the year and 3.4% in the quarter to $381 billion, which we consider a positive performance. Individuals portfolio continue to deliver good growth, expanding by 4.6% over the previous quarter and 22.6% in 12 months. Payroll lending, credit cards and (euro) or agro were the main growth drivers. The consumer finance, once again, delivered solid figures expanding 4.2% q-on-q and 20% year-on-year, still reaping the benefits of our digital platform, as I had mentioned before. On the SME portfolio, it has also shown improvements and reached a double-digit growth year-on-year, which as -- if you have been following, it has been gaining momentum even the last quarters. And now we are already in double digits. Both service and reaching 1 million clients are the support of this growth. We are confident that this cycle is still at the beginning. And we will continue to grow our client base on the back of client satisfaction level. Finally, the corporate portfolio, which is still lagging, reflecting the limited appetite from our clients in the quarter.

On Slide 17, you can see how our funding has evolved. Balance from funding from clients are increased 3.7% q-on-q and 9% year-on-year, a sound result on the back of our intense effort to enhance customer engagement levels and client base. All concepts presented a positive yearly performance, except for the most expensive instrument, financial bills. I would highlight saving deposits (full plans), growing strongly when compared to the sector. Also to mention, the real estate and agricultural credit notes, LCI and LCA, which grew 6 -- almost 7% q-on-q above the system in the period also. Total, on balance, funding grew 16% year-on-year, which we consider adequate to support our loan growth.

On the next slide, we have a clear view that fee revenues performance is very good related to how much clients use and want to use our bank, plus our Net -- the Net Promoter Score, the NPS we have continue to recommend. It comes as a result of a greater number of engaged and active customers, adequate pricing and improvements in the quality of our products and services, altogether culminating into increased transactionality. In the nine months of this year, total fee income increased double digit, 10%. We have highlight accounts, current account and insurance. The drop in the quarter, 3%, can be explained by different aspects, including the seasonality in insurance, weak activity in the corporate segment ahead of elections impacting the securities placement, custody and brokerage line and pricing reassessment of lending operations. We remain confident that fee revenues will continue to show a good positive trend in the upcoming results.

Now let's talk about asset quality. The short-term NPL continue to improve on both segments with a drop of (inaudible) mix in the quarter. In our view, this is an undisputable evidence that our risk models continue to be highly trustable, giving us confidence to keep on growing our business. The NPL over 90 days is emerging flat and behaving within a good range. And again, coverage ratio stood at 207% and is still at a comfortable level.

Moving onto the next slide, you can see that loan loss provisions remained stable for -- in the quarter. This good dynamic led to another improvement in our cost of credit to 3.1%, which, combined to our strong loan portfolio growth and mix change, is undisputable evidence that we are on the right track to improve profitability and that our risk model is right on place.

On Slide 21, we see how expenses have moved. As I mentioned before, process is being industrialized, at least among the bank's top priorities. We continue to focus on cost discipline and lean (lines). In these nine months, general expenses grew a little above 4%, 4.4%, in line with inflation and substantially below revenues, 12% 1/3, indicating that we are increasing and taking advantage of our operational leverage. In the quarter, expenses increase is mainly attributed to data processing, reflecting a greater number of transactions and accesses through different channels, indicating that our clients are closer to the bank and using our services more frequently. Looking ahead, we continue to expect costs to be somewhere around inflation, all for a level of commercial intensity of the bank will continue to put pressure.

Next slide summarizes our performance ratios. As a result of what I had just mentioned in the previous slide, our efficiency ratio in these nine months is substantially better than one year ago and in line with the previous quarter. Recurrence ratio rose to 85%. This was 81% in same period last year, again, bringing more creditability and resilience to our results. The drop in the quarter is strained by the already mentioned fees performance. And again, we have maintained a 19.5% return on equity, same as last quarter and the highest in the last 10 years.

Moving to capital and liquidity. We continue to present solid numbers. Our funding solutions stood out at a comfortable level with a loan-to-deposit ratio of almost 89%. Santander Brasil, this ratio is at -- above 15% with corrected Q1 fully loaded increase of 20 bps, reaching 12.6%. This is fully loaded calculation, what I call the fully loaded calculation. So we are considering before impact of the next 5, six years. So the total impact of the new Central Bank resolution, which considers both tax assets or ForEx variations. We are not limiting the calculation to certain amount of years. So it will be the most conservative one.

Going to my final remarks, concluding the presentation, I would like to review the main highlights. Net profit growing 25% year-on-year compared to the nine months last year, representing a solid and sustainable rate. Total revenue growing 12% this last year, reflecting our customer-oriented strategy. Asset quality controlled, evidencing our excellence in risk modeling. Cost under strict control. And lastly, our return on equity, already mentioned, of 19.5%. We remain well positioned to deliver, again, sustainable results, powered by a well-defined business strategy of organic growth and disciplined capital deployment.

I would like to thank you, to thank everyone for attention. I think we can now move on to AndrÃ©'s -- AndrÃ© Parisi's words and then to the Q&A session.

AndrÃ© Parisi

Just before moving to Q&A session, I'd like to share with you that Santander Brasil has rescheduled our 2019 Investor Day now, which was previously programmed to be held today. The meeting we will have plays on October 8, 2019, wherein Santander also celebrate 10 years as a listed company locally and in New York Stock Exchange. I want to invite you to be with our top management. And bear in mind that further details will be provided by our Investor Relations team as soon as possible.

So now we can move forward to the Q&A.

Questions And Answers

A - AndrÃ© Parisi

First question is from Carlos Macedo, Goldman Sachs. Your credit spreads declined for the first time in a long while despite ongoing favorable changing mix. This reversal also showed on ItaÃº's third Q results. Both banks attribute this to the pressure in the consumer book. What can you say about the trend for spreads going forward? Do you expect pricing pressure going to continue to offset change in mix and improvement in the funding?

A - Angel Santodomingo Martell

Okay. Thank you, Carlos. Speaking about the splits, let me elaborate because I assume that we think the question -- you've also asked for an explanation of this quarter's split. So the first thing is, as you have seen in both and speaking about the NII, volume is strong on terms from the retail side. And the spreads, depending on the segment, they continue to evolve as we have seen in the past. So normally speaking, I mean, we have seen some pressure, specifically as you move to large corps. We have seen also some pressure on the kind of discount of receivables and other businesses, et cetera. But I think this is kind of the trends we have been commenting in the last weeks. Specifically in this quarter, we have an impact which has to do with regulation on the NII. As you all probably know, it started in July. We had a new Central Bank regulation -- or resolution, sorry, which regulates interest rates on late payment of credit card bills. So the resolution limited the non-overview credit card revolving rate. So this is the main explanation. Alternatively, you can -- also mentioned here, we have pressure on other parts of the portfolio. But that is more contrary. It has to do with repeating overdrafts or a little bit here with payrolls. But again, this is kind of sometimes even seasonal or the normally cyclicality that you tend to have in this type of sector. And now going forward, I do not expect, obviously, another impact in the spread in fourth Q compared to third Q because this has already happened, given this change in regulatory terms. And we have not seen all the changes in regulation so far. So the change I mentioned happened in July. We all knew it. And this is the type of impacts that you tend to have when regulation changes.

A - AndrÃ© Parisi

Okay. Next question, Lucas Lopes, Credit Suisse. After the definition of political scenario, risk management considerably increase risk appetite?

A - Angel Santodomingo Martell

I -- more than the political of the macroeconomic scenario, I think we have foresaid our position in terms of how we see the bank kind of navigating through the different cycles. I mean, we tend to be in a stable bank. So we try to avoid volatility in the decision-making process, I mean, in big terms, okay? I'm speaking 10,000 (meter) here. We try to avoid strong variations or movements of direction to where the bank is. The bank is positioned, we think, strongly and in the right direction in terms of both products and services. And specifically, in terms of quality of client attendance. So if you see the last cycle, credit -- the credit variables have been reasonably stable, improving. But with kind of a similar level of appetite of risks. Then you have the tactic movement. That's the fine-tuning on -- depending on how you see the different (inaudible) behaving, et cetera. But I guess your question is a little bit more general than that. On the fine-tuning, obviously, we fine-tune. But this has happened during the last five years. And the credit variables have been what you have seen there. We see -- we have a positive view on how the macroeconomic scenario could behave going forward. And that means that, probably, we will see, structurally, a positive trend in terms of quality. But I mean, we still -- we don't see any early indicators that could worry us, et cetera. So that is where we stand as of today.

A - AndrÃ© Parisi

Okay. Next question is from Jorg Friedemann, Citi. (Which) of the 25.7% contraction q-on-q on lending fees, I appreciate if you'd have more color on this.

A - Angel Santodomingo Martell

Okay. On fees, I mean, I think I mentioned a little bit on my speech the main things happening there. Let me elaborate because the q-on-q, again, we have a kind of a special impact on the q-on-q this year. Let me differentiate a little bit. First, the environment, we have seen, for example, in terms of markets, pipeline, activity, et cetera, a quarter that has been milder, okay? And that probably has to do with the special situation of the country, given the elections, until the elections went through in terms of uncertainty and in terms of what could evolve going forward. I would say that the pipeline is strong, is full, specifically in fixed income operations. But also in equity. So we should see some resuming as we speak. I mean, I'm not worried on that. On the insurance side, this is seasonality, pure seasonality. It has to do with campaigns. We normally have a First Quarter that is weaker. It depends if you do in a stronger or a lighter campaign on one quarter that you have this type of transfer. For example, the 4Q in insurance is very strong. And you will probably see a strong uptick here. And the third and -- but not least, which is probably one of also of no interest is another regulation change that we have applied in the quarter and that we have -- it has affected the line -- in English, I don't exactly remember which is the name -- okay here. Lending operations, that's aligned. So it also has to do with this regulation impact that explains almost 100% of -- again, the same environment, fourth Q, we should not see this type of separation because this has already happened. And so the q-on-q variation will again reflect. We continue to see the double-digit growth. So I don't see an issue here. Bank continues to grow strongly in linked client, I mentioned 26%, in active clients, in total clients, in digital clients. So I don't see why this should kind of have less momentum going forward.

A - AndrÃ© Parisi

Next question is from Philip Finch, UBS. Can you discuss if you think there's potential for cost of risk to go any lower?

A - Angel Santodomingo Martell

Yes. I think if -- I think I mentioned it just slightly on my previous answer. I -- we see cost of risk control in terms of evolution. We don't see any signs of degrading processes or of the lag in terms of how it could evolve going forward. I would link this in a high percentage to the macro environment, okay? If we have a Brazil gaining momentum in the next quarters or years, I think that the cost of risk will respond to that situation. And again, you have an open question period, which is that if we have a country in which interest rates, inflation, et cetera, keep on being controlled and at a low levels, I would tend to think that, structurally, the cost of risk will tend to go to lower levels. But this is kind of a more macrostructural view for the medium term.

A - AndrÃ© Parisi

Next question from Mario Pierry, Merrill Lynch. Can you provide more color on the increase in corporate NPL in a specific sector?

A - Angel Santodomingo Martell

Well as you know, we don't speak about our clientele. But what I can say here is that it has been -- the small hiccup that you see there from, I think, 1.7% to 7-something to 1.8% or 1.9% has to do with one case. This type of things I always get mentioned that you have -- when you speak of mid to large corps, when you have an in or an out, you tend to see these small volatility on a quarterly basis, not important at all, first, second, provisions. In fact, if you see the coverage ratio going down, it explains that it has gone into the NPL but it was already provisions. So no surprise at all, again, no significant. But yes, I mean, you have this kind of ins and outs, depending on the quarter. The total NPL doesn't vary. And the corporate one responds to that. We have inflection on the coverage going from 219% to 207%.

A - AndrÃ© Parisi

Next question is from Thiago Batista, Itau BBA. The bank closed 60 mini branches in the quarter. But still opened 14 new branches. Can you provide more color on the strategy for physical channels going forward? The headcount reduction of 172 employees is related to the reduction in the number of mini branch.

A - Angel Santodomingo Martell

Yes. Thank you, Thiago. Our strategy in terms of physical distribution is the following. First, we feel we have approached the right size. So we don't have a structural issue here in terms of having to structurally magnify our presence in the country. But discuss -- let me kind of elaborate a little bit more on this idea because -- I mean, it has to be explained. The second most important here is that we are client-centric. So we want the client to decide whether he or she wants to use whatever channel he wants, okay? So it's up to him. It's not up to us to decide where and how he wants to use or contact us. And the second point, an important point, is that, first, as a business as usual. But also because of a strategy of going to the inner part of the country. In the next years, we will be opening what we call small shops, which in a way are small branches, as a positioning in different businesses, in the agro business, in areas in which we have traditionally not been there. But the country is growing strongly. At the same time, that given the history of the bank, we have areas of cities. We tend to be more cities in which we are over-present, okay? So the management of the network will lead to a -- we call it a more interior-ized in the country. Santander Brasil bank comparatively -- compare this in the next five years compared to today. But I mean, structural changes I will not expect them at all, okay? We think that the 3,300, 3,400 points of sale between branches and thousands more branches that we have in the country are sufficient and okay. The last point of discussion. And I think I have shared with this -- this with you in the past, the last point of discussion is the role of the branch. And it's an open discussion. Probably, we will go to a lower transactionality level in the branch and more on the digital side. We are already -- I think it's close to 81% of reparations or transactions that are going through digital channels. So the role of the branch will change going forward. And that will allow us to adapt or to change the way we position ourselves towards the clients. But that has nothing to do with the present. It has to do with the content and the way we want the branch to act.

A - AndrÃ© Parisi

Okay. Next question is from Carlos Macedo, Goldman Sachs. In the quarter, you recognized a gain of roughly BRL 400 million with effects variations in bad debt embedded in the other revenues line compared to the last BRL 60 million second Q, when effects varied by a larger margin. Can you give us some color on that gain and its sustainability?

Okay. First, if I am correct, this line tends to be volatile by definition, okay? So we tend to have several things included here and there as we believe -- continue to see the margin. And that has to do with the others -- this other concept. So first, profitability back in the quarter is a consequence of several things, monetary -- some of them had to do with the business that are included there, some of them are more kind of out of the business. For example, monetary restatement on provisions for judicial and administrative procedures or legal obligations. Provisions, for example, I think it's also there, if remember correctly, provisions for benefit guaranteed fund, other provisions in exchange variation. There, for example, you have a large part of that, that has to do with the ForEx variation on credit cards. As you know, this is pure business or related to the business. As you know, what happens is that in between the moment the client does the operation and the moment that you recreate the operation, you have a difference in terms of ForEx. This also impacts there, I mean, one of the main impacts. Another impact related -- now that I am speaking of ForEx, another impact that has to do with the ForEx is our positions in capital outside Brazil, in our offshore branches in which you have their bones or whatever you have and -- whatever that asset you have. And has also a ForEx impact. So the adding of all these plus, minuses tend to be volatile. And the end gain of that has this impact that you mentioned in this Q. I would assume that the normal -- like when you ask me from -- for others in the NII, et cetera, the normalization of this line should happen. And we should go to the average of the last several quarters or years, which is the normal situation, okay? I think I more or less explained underuse. You have me here if I forgot something to explain, okay? Thank you.

Okay. I know the perfect explanation is that one. So now we're going to open questions from phone calls.

Operator

(Operator Instructions) Mr. Domingos of JPMorgan would like to make a question.

Q - Domingos De Toledo Piza Falavina {BIO 16313407 <GO>}

It's actually adding to Macedo and to your explanation. If understood correctly, most of the effects of BRL 430 million gain was driven by accounts payable and credit card expense abroad. We noticed here an effect, depreciation of the BRL, which would make in accounts payable abroad increase and, therefore, negative results. On the other hand, you also mentioned not as the primary reason. But invested assets in foreign subsidiaries, which would have had a gain in this scenario. So I'm still a little confused. Why isn't this in NII? I guess that's my number one question. And number two, given we had an effect, a BRL depreciation versus the dollar and a gain in this line, now that we're seeing this reverse, I mean, in BRL appreciating, should we see a loss?

A - Angel Santodomingo Martell

Yes. I think, Domingos -- I think I elaborated on this. And just to -- again, on the ForEx side, roughly half-and-half, okay? So -- I mean, is first what I explained on credit cards with the moment of payment, et cetera. And the second is what you said, the assets on the offshore branches. So it's basically that, given the evolution that the real and the dollar had in the first Q. Obviously, as we go into the fourth Q, we could have these type of reverse. We could, obviously. So again, this line is volatile by itself. And it has a lot of -- I mentioned -- I don't remember all of them because I started to kind of brainstorm a little bit with you on all the things I remember that are included there, the provisions, the monetary appropriation, the labor things, et cetera. So it has a kind of an adding and deducting. And some quarters, it comes positive, some quarters, comes more negative but -- on the trend you said on the ForEx. Okay? Thank you.

Q - Domingos De Toledo Piza Falavina {BIO 16313407 <GO>}

Angel, just to make sure I understand. If you hedge the line, will it be within NII others, which is your treasury? Or would it be in this line separately?

A - Angel Santodomingo Martell

As I mentioned to you, Domingos, they are the concepts. Accounting-wise, they have to be where they are, okay? So it's not in a -- I mean, I do not define accounting. So that's where -- totally following the accounting principles that are defined. As you can imagine, both internal and external audit give their opinion, their lines of action. And our accounting department applies them. We don't have the choice of putting this type of things in one line or the other.

Operator

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

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Q - Jorg Friedemann {BIO 15405752 <GO>}

I just like to clarify a couple of points that I did not get them fully. The first one, on the spread evolution. You mentioned that most of it was from the new regulations on credit cards. But also you have been saying stronger competition. Could you give us a bit more color about how much of the contraction was due to the regulations and how much was from stronger competition in other products? This is the first one. And the second one, on your explanation about my question on the lending fees contraction. You attributed to regulatory changes, Angel. Could you comment which regulations, I know, have change it in the quarter to cause this contraction? That's it.

A - Angel Santodomingo Martell

Thank you, Jorge -- or Jorg. Okay. So the 2 things, let me elaborate. On this third thing, what I said in terms of the Central Bank resolution, again, this is view to obtain the resolution starting in July, had to do with the limiting of the non-overview credit card revolving credit rate, that it was limited here in Brazil for all credit. That was a new thing starting in -- at the start of this quarter. And it explains basically the change in the spread. Basically, it's the large, very large part of the change of spread. So that's why I was saying to you that. The other things I mentioned. But again please don't take that as something that more important, it's basically done. There was -- I can mention you the positives and the negatives because we also increase in the spreads in all the province. So the other side, a little bit of business as usual. On the fee side, we had again an implementation of the -- how is (foreign language) in English? Advance? Okay. So it's advance to deposit holders. That's a fee that we started -- sorry, we stopped the charge on July also this year. So again, at the start of the quarter. And it explains, if I remember well, the drop on the quarter close to 20% or 25% -- 25% sorry, 25% on that line on lending operations. The other 2 concepts are pure (power). I mean, the issue in the insurance, I mentioned, is pure campaign. And the issue of heading these operations on the equity and fixed income markets. I mean, I think we all see what has happened in terms of how many companies were going into the market or waiting to go into the market. And I would guess that it would revert on the fourth Q.

Operator

Mr. Luis Fernando Azevedo of Banco Safra would like to make a question.

Q - Luis Fernando Azevedo {BIO 6695858 <GO>}

My question is regarding income tax rate. It seems that the effective income tax rate has been a little bit higher than -- compared to previous quarters. How do you see this line ahead? I think Fourth Quarter, you may see benefits from IOC. But how do you see also in 2019?

A - AndrÃ© Parisi

Luis, here is AndrÃ©. If I understood the question regarding the exact tax rate, we do expect, looking for the full year '19, something close to what we have into the 9 month of '18, okay? So this quarter will happen that the effects variation we presented is slightly higher effective tax rate, meaning from our international branches operations, okay? So basically, it was that. So looking forward, not consider the 4Q '18 because then we have a different dynamics. But for the final year in '19, probably what you're seeing around the nine months of '18.

Operator

Mr. Rafael Frade from Bradesco would like to make a question.

Q - Rafael Frade {BIO 16621076 <GO>}

I have 2 questions. The first one would be regarding funding. I'm really surprised of how strong has been the funding. I would like to understand it better. Any specific measure that you're taking or this is just organic from new clients? And the second question is regarding your acquiring operation. Getnet volume is very strong. In terms of credit card, acquiring volume is very strong. But when we look for the earnings for Getnet on your footnotes, it fell a little bit year-over-year. So I just would like to understand if we're comparing the same thing here and if you could elaborate a little bit on the competitive environment that you are seeing.

A - Angel Santodomingo Martell

Thank you, Rafael. On the funding side, I guess that I have -- I mean, like I said with you, the liabilities and our view on the liabilities side of the bank and the to-dos and what we are doing there, basically, the bank that is -- I mean, with more active client leads, et cetera, these leads us to perform nicely or at least in a nicer way on the liabilities side. I mentioned in my speech (inaudible) savings has been a clear kind of -- it shows clearly how we are doing there. I mean, we're -- I think they were only like 4percentage points more than the market. We were like 15%. Market is going around 11%. That is a kind of a win-win, proud for the client and for the bank. It is quite attractive. So it means NII directly going into the P&L, no? Financial bills, let us enunciate. As we continue to decrease them, we issued some in the quarter, just as a way of keeping some activity on that side. But also -- I mean, saving NII there. And we grew a lot in this, the -- what we call here LCIs and LCAs, which are the kind of issuances with an underlying both on the real estate and on the agro business, which also offer a good cost. For example in LCAs, we have probably 9% of market share, no? And this used to be close to 0 kind of a couple years ago. And it's a good alternative to the letters from the head of -- to the financial bills. And again, a win-win for the client because it's quite attractive, as you know, on the tax side also. So (inaudible) continue to perform. I mean, we are at least BRL 950 million on the NII from the liabilities side, threefold compared to 2 or three years or four years ago when the SELIC was this high. So we have absorbed a kind of (SELIC) that is half what it used to be and, at the same time, outperform in terms of, of course, the fund. On the acquiring side, I would say Getnet continues to perform. It's already 14% market share. I mentioned with you several times that we saw that by the end of '19 -- sorry, '18, we could be in this region. We are there. The activity levels of the acquiring business continues to be strong, depending how you compare 3, 4, 5 times how much the market is growing. So again, is a proof that it is a strong part of our commercial efforts to the clients, which does not hinder the reality, which is that there some pressure on both MDRs and discount -- receivables being discounted. So that is what we see today in the country. There is pressure on that part of the business. As you know, we have a different mix, we have much more retail than wholesale. So that difference gives a little bit of difference to us in terms of comparing with other competitors, from which we continue to grab market share. But the structural kind of situation or move is the one I said with you.

Operator

Mr. Thiago Batista from Itau BBA would like to make a question.

Q - Thiago Bovolenta Batista {BIO 15398695 <GO>}

I had a question on the exit provision of the bank. During third Q, from (inaudible) did we forfeit exit provisions? It seems wrong by about BRL 200 million. So that's the view of bank, actually, BRL 2 billion now. Can you explain, did increase the provision and if this is correlated somehow with -- specifically, to the corporate? I don't think so because most of those exit...

A - AndrÃ© Parisi

We didn't get the sound very well. Can you repeat a little bit more clear in terms of voice?

Q - Thiago Bovolenta Batista {BIO 15398695 <GO>}

No, no. No. The bank did BRL 200 million in exit provisions during this quarter. So the provision achieved there, provision achieved is BRL 2 billion. If I'm not wrong, this -- those provisions were on loans on a working fee. So probably, it did not correlate with your specific plays. But can you explain why the bank reinforced its exit provisions?

A - Angel Santodomingo Martell

Yes, I got it now. Sorry. Well this has to do specifically with how our risk department and the risk models, et cetera, how we classify clients, the grow of clients -- the growth, sorry, the growth of clients. And remember that we are strongly growing in clients, we are strongly growing in the retail (war) in SMEs, et cetera. So it has to do with the model. I mean, if you grow a lot, as you said, you go -- you provision more in the upper parts of the provisioning levels, in the A, B, C, et cetera. But you don't have the specific case, right? You have the issue of provisioning because you are growing. That's -- that has to do with it. Okay. Thank you.

I think that's about it. So thank you so much for the -- I think we don't have anything else, no? Thank you. So much for the time with you. Obviously, we keep on being open to any questions on our Investor Relations team and looking forward for next quarters.

Operator

The Q&A session is over. And I wish to hand over to Mr. Angel Santodomingo for his closing remarks.

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