Q1 2016 Earnings Call

Company Participants

- Angel Santodomingo, Executive Vice President and Chief Financial Officer
- Luiz Felipe Taunay, Head of Investor Relations

Other Participants

- Domingos Falavina, Analyst
- Rafael Frade, 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. Luiz Felipe Taunay, 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. (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 as any 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. Angel Santodomingo. Please, Mr. Santodomingo, you may proceed.

Angel Santodomingo {BIO 15757370 <GO>}

(Foreign Language) Good morning, everybody. Thank you for being present in our first Q 2016 results. I'm going to go through the presentation as always, and then we will open the floor for Q&A.

The presentation will be divided in five main blocks. The first being key messages, specifically our strategic messages going forward. Then I will stop for one slide only on results of Santander Group that are already known and public to the market; and then we will go specifically into Brasil, into Santander Brasil, going through the macroeconomic scenario, highlights and results and the performance of this first Q.

So going into the four main strategic messages in terms of customer orientation, which will be the first strategic pillar of the bank. The ideas here are that we want to support our customers and businesses. So we continue to invest in our retail franchise increasing customer satisfaction and reducing complaints. And these are tangible facts, it's not only positioning of the bank. In fact, this quarter we again remained above our peers in the Central Bank complaints -- complaints ranking that is probably as I said monthly. This is a result of our increased client linkage.

Also one month ago, which is the first point, we launched our new positioning which clearly expresses our customer centric model through the sentence or through the question of what can we do for you today in Portuguese [Foreign Language] which is basically what we could do for clients being closer to them today, not just today or tomorrow, trying to offer this possible solution. And obviously, we'll continue to build our multi-channel platform to which I will address in future slides, but I must say that, we already got to 5 million digital customers as we speak.

Next slide, talking about the integrated bank, we think we are nicely and widely positioned through an integrated offer including wholesale and retail service products to our clients. This is probably unique in Brazil in terms of being able to offer this integrated offer and service. Global corporate banking, in that area we are leaders already in project finance and Forex operation. And in April, we were also leaders year-to-date in ECM operations.

In SMEs, we have the most comprehensive offering of any Brazilian bank with a complete package of financial and non-financial products and services including an integrated account with apparent [ph] access to an international desk, an online platform with our delivers of potential employees and a training platform for owners and their employees, unique offer particularly for these SMEs.

And finally, the Atacarejo concept, which -- this is a word in Portuguese joining retail and wholesale and this is the unique position and that was mentioned to you. For example, we just agreed with a big company here with 5,200 points of sales in which we are going to offer and install an integrated solution both acquiring and with the rest of financial services in all its shopping points.

Third point, maintenance in cost control. I would just here underline that we continue -- we expect to continue improvement in cost below inflation in 2016 as we have done in the last three years, already saving more than 15% in real terms. This continues to be in the DNA of Santander Brasil.

And finally the fourth strategic point, I would like to draw your attention to our excellent risk management which has proven both preventive and effective, especially given the current macroeconomic Brazilian scenario. As a result as you will see in the next slides, our NPL ratio remains under control, having increased only by 30 basis points in the last 12 months.

So how are we positioned our -- on top of the four strategic lines of action, we are well positioned being the only international bank in Brazil with critical mass. So we are the reference in that sense. With a market share of close to 10% across this business, we have the ideal size and scope to take advantage of growth opportunities.

Having made the strategic positioning introduction, I would like stop five seconds in today's Santander Group results. The Group as you know have -- has presented a net profit of EUR1.6 billion with an increase of 12% Q-on-Q and 5% down when compared on a year-on-year basis. 61% of that total income come from Europe and 39 from the Americas. The Brazilian results that as you can see are important for the Group accounts for almost one-fifth of the total.

So moving to the macroeconomic scenario, let me address a little bit how we see things on the macro/political side. Last year, as you know was characterized by a transition of adjusting prices and consumption. This process we believe is not yet complete. And as a result in 2016, the country is expected to experience a recession of around 4% accompanied by a still high inflation of around 7%. Recently the improvement in Brazilian's -- in Brazil's outlook together with some improvement in the international scenario enabled the real to strengthen somewhat in line with the rest of the markets.

Additionally, we have seen a strong change in Selic expectations, now estimating a cut in the rate by the end of the year. The deflationary process could be intensified if the currency strengthens further, paving the way for a monetary easing [ph] which may help the economy recover even further. Despite the ongoing challenges, we continue to be optimistic about the future.

The country remains one of the most attractive emerging market, if not the most. In fact, Brazil presents a low financial credit risk, international reserves, a strong solvency and liquidity levels, and a well acknowledged banking system. The country also has sound institutions and demographic bonus which are supportive of growth and favors several economic sectors structurally [ph]. We see the current moment as one of opportunity looking forward which could lead the country to resume a stronger and more sustainable growth with greater productivity and important social gains.

So moving to the highlights of the results. In this slide, we present to you the three main buckets about both the results and the balance sheet. On the gray zone, I would refer to balance sheet; on the yellow boxes we refer to P&L, and finally the net profit that we are presenting.

So our first quarter results, we think were positive being the main highlights that the bank's capital and liquidity position remains absolutely comfortable. The loan portfolio reflecting the economic scenario as you will see in the next slides. Nevertheless, the customer base expanded and revenues increased. Asset quality metrics remained stable or are deteriorating in a limited and controlled model. Total cost growth remains below inflation as I mentioned, and as a result, net profit climbed by 3% reaching almost R$1.7 billion.

Going to the specific performance of this first quarter results, as I mentioned, net profit totaled R$1.66 billion in the first quarter of this year, 3.3% compared to the previous three months. In the year-over-year comparison, as you can see net profit increased 1.6%, 1.7% which underlines that we are on the right path of a sustainable and more resilient results. And we have achieved this increasing the customer base. We have increased almost 300,000 clients linked in the last 12 months, almost 650,000 digital clients and we have increased the total base of clients by 1.5 million in 12 months, reaching 32.8 million clients.

On the slide 16, we show the main lines of our results, about which I will go into more detail later on. Regarding revenues, net interest income increased by 2.9% over the fourth quarter of 2015 and 6.4% over the first quarter of 2015. Fees fell by 3.7% in the quarter due to the seasonal impact of credit cards and insurance, but registered in a strong year-over-year upturn of 9.3%. The allowance for loan losses decreased by 12.2% in the quarter, returning to similar levels of 3Q 2015, after decremented, we already commented this in the previous results presentations, after decremented in the 4Q 2015 results as I said and presented a 12-month growth of almost 15%.

General expenses declined by 4.8% over the previous quarter and grew by 7.5% over the same period in 2015 which is still below inflation even considering the annual collective bargaining agreement of 10.5%. As a result as mentioned net profit totaled 1.7 billion, 3.3% more than in the fourth quarter of last year.

So looking now at each individual line, let me address in the slide 17, the evolution of our NII which totaled 7.6 billion in the first quarter, 2.9% up versus the previous quarter. The increase is explained by market activities which maintained a good performance in the quarter as well as NII from liabilities, which is starting to reflect our already announced efforts on this side of the balance sheet.

Net interest income from credit reflected a drop in volumes, due to the weakening of economic activity. But it is worth highlighting that credit spreads of the loan book increased by 10 basis points both quarterly and in a 12-month comparison. With high expense per product more than offsetting the negative impact of the change of mix. So the price effect has more than offset the mix effect in terms of impact in the NII.

Moving to volumes, the expanded loan portfolio totaled 312 billion, which represents a decrease of 5.7% in the quarter and 3.8% in the last 12 months. A natural tendency that I mentioned in the previous slide given the challenge macroeconomic scenario adjusted by Forex, the drop in the quarter is 4.5%. By type of clients, it is worth noting, the performance of the individuals portfolio which increased by 0.9% over the previous quarter and 7.2% in the last 12 months. Payroll lending and mortgages continue to be the main growth drivers.

Consumer finance which decreased by 3.6% Q-on-Q reflects the weaker vehicle or car market. Our model is extremely efficient and we were consequently able to gain market share in the current scenario maintaining our leadership. Both the SME and the large corporate portfolio reflected the mentioned weakened [ph] derived from the macro scenario. In the last case, in the corporates portfolio, large corporates portfolio, 30% [ph] of the quarterly drop is explained by the strengthening on the retail.

On slide 19, you can see the evolution of funding. Funding from clients which totaled 283.1 billion, were down 1.7% Q-on-Q, but up 8.6% year-on-year. The decrease in the quarter can be explained by the different deposits performance, again reflecting the economic scenario, while treasury notes are increasing in order to offset both payment of dividends and reserve requirements. Good performance of assets under management, as you may see raising strongly both in the year and quarter. So, total funding including off balance sheet and assets under management came to 512 billion or 513 billion, falling 0.6% Q-on-Q and climbing 9.3% in 12 months.

Moving into the P&L commission side, so as reflecting our increasing linkage with clients, fees are evolving positively. Total fee income came to 3 billion in the first three months of 2016 are remarkable absolute level compared to the past, 9.3% higher than in the same period last year. It is particularly worth noting that fee revenues are moving towards expected double-digit growth of 2016. In fact if we exclude the kind of one-off effects of the sale of a custody business that we announced last year, fees would have increased already at 10.2% year-on-year, a double-digit increase as I mentioned.

Current account fees again reflect an improvement of our relationship with clients, with more than 24% growth year-on-year. In the Q-on-Q comparison, the 3.6% -- 3.7% downturn was impacted by our traditional insurance and credit cards seasonality effect. Excluding the first effect, the 4Q high insurance and revenue impact that we normally have, fees would have increased 1.2% instead of the mentioned minus 3.7%. So as I mentioned in the first, what I spoke in the presentation, here commissions fee revenues -- excuse me, fee revenues are a measure of the loyalty of our customer base, a critical variable in our business model.

If we move to credit quality on the slide 21, I would underline that the 15 to 90 days overdue portfolio, adjusted for the announced specific facts in the corporate segment in 4Q 2015, if you remember, I mentioned that in the presentation of 4Q results worsened somehow or somewhat in the quarter, again reflecting seasonal patterns and the deterioration in the economic activity. This last recent economic situation also caused a deterioration in individuals.

NPL over 90 days increased by 10 basis points in the quarter with both the individual and corporate segment remaining flat. This was due to a combination of our continuous efforts. Our credit mix more focused on low-risk products, our more robust customer knowledge product in terms of risks and effective portfolio monitoring. Finally coverage reached 200% remaining at quite comfortable level. In general terms, we expect the current challenging macroeconomic scenario to result in a moderately negative credit quality trend in the coming quarters.

Moving to cost of credit, the allowance for loan losses, as you may see totaled 2.4 billion in the first quarter, a 12.2% improvement or drop over the previous three quarters. And the cost of credit fell back to the levels of previous quarters. This trend can be partially explained by the normalization, following the upturn in the prior quarter that we announced and which was associated, as mentioned in the 4Q results presentation with specific issues in the corporate segment.

Moving to slide 23, we see the evolution of expenses and as was clearly mentioned, cost control is a cornerstone for Santander to grow sustainability or to continue sustainability. Expenses decreased 4.8% in the quarter and increased 7.5% in the last 12 months. If we consider consistent -- constant perimeter, let me remind you that that we mean excluding Ole, Ole is the new trademark for Banco Bonsucesso Consignado, the payroll joint venture that we have. The expenses, instead of that 7.5% would have grown or increased by only 6%.

Moreover, the year-over-year evolution was also affected by the annual collective bargaining process that I also mentioned before. Going forward, we remained committed to cost control discipline. We expect to deliver expansive growth -- expense growth, sorry below inflation also this year for a fourth consecutive year.

The next slide deals with our performance ratios. There was a wider spread improvement in the quarter. Efficiency improved 60 basis points, and finalized or ended the quarter at 50.8%, recurrence increased by 69% to -- from 69.3% to 70.1%. Every time that we improve this indicator, we bring more predictability and resilience to our results. Thanks to these advantages, return on equity increased to 12.6%. As we have mentioned in several occasions, we continue to post improved results in this area.

On slide 25, you can see that our liquidity and capital position remains solid with a stable funding sources and an adequate funding structure. The loan to deposit ratio reached almost 88%, a comfortable position and the lowest since 2009, I think. BIS ratio stood at 16.4%, an increase of 70 basis points over the previous quarter. In addition to having a comfortable level, our capital is of excellent quality with a Tier 1 ratio of 15.1%.

In sum, in the slide 26, our management model has proved its effectiveness controlling risks, expenses and liquidity and capital levels. Therefore building a solid platform on which to continue growing with quality. In the commercial area, we have made rapid progress with our digital agenda which together with our other efforts has helped improve customers' experience and reviews complaints. We have also attained the expanded -- and expanded our importance in the strategic businesses, exemplified by the fact that our foreign exchange platform is the biggest in the country.

With regards to investments, we concluded the outright acquisition of ContaSuper, a prepayment digital business with enormous growth potential. Our Webmotors portal, already Brazil's biggest online vehicle purchase and sale site acquired the Busca Carros brand which has (inaudible) important in important locations in the South region with high market sales. In our payroll business, we finalized what I mentioned, the change of the name of Ole Consignado from the previous Banco Bonsucesso.

And thanks to all these efforts, we generated a positive impact on both our operations and our balance sheet. This was the eight quarter in which we have recorded net income growth since the beginning of 2014. We gained more clients and encouraged them to carry out more transactions with us. Consequently, profitability increased and our main performance indicators improved.

So as my final words, I think we have the necessary infrastructure and capital and positioning with an efficient integrated commercial model and important competitive advantages, ensuring that we are ideally positioned to continue delivering profitable growth.

And we address in the last two slides couple of ideas that I think would be of interest for you. First, our two latest contributions into the Brazilian society. The Santander Theater in Sao Paulo that we just inaugurated, and the Santander Cultural approached in Porto Alegre reaching 15 years.

In the next slide, registers our full offer of products and services in Brazil. This is the ecosystem of Santander in Santander Brasil -- sorry, Santander Brasil in Brazil that shows the potential and the positioning in each of the segments and each of the products.

Thank you for listening and now I open the floor for the Q&A session.

Questions And Answers

Operator

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

A - Luiz Felipe Taunay {BIO 17416804 <GO>}

So we start to go for the questions that I've received, many things. I will summarize the things, try to put together the questions that relates to the same topic.

So starting with the loan portfolio, we received a question from Eduardo Nishio from Plural, asking how we see credit evolve in 2016 and 2017 given the contraction in the portfolio that we saw in this quarter.

A - Angel Santodomingo {BIO 15757370 <GO>}

Okay, thank you. Well, as I mentioned in the presentation, we think that apart from Forex impacts and kind of the non-like for like issues, it is true that we are seeing the macro economic scenario or situation or environment affecting the evolution of the portfolio. We remain -- I mean this is statistical one, but we remain with the idea that probably the Q-on-Q behavior in terms of economic indicators could start to be positive sometime in first Q against the second Q or fourth Q against first Q. At some point, we think that the economy will bottom-up, another discussion is the size, the strength and the timing of the way out. But we do think that we should start to see that positive territory in the next quarters.

If that is the case, we should also see reflection of that situation on volumes. So I would expect something like single-digit, low single-digit or positive single-digit for this year, gaining a little bit of momentum for next year. It is what we have been saying more or less during the last, I don't know, at least three, four, five quarters. So we haven't changed the message here, and we still think that if the economy behaves as I've mentioned, we should start to see that kind of behavior.

Obviously, the confidence levels are going to be crucial in that discussion. And so the general momentum that the country could be involved during the next months will be kind of important to understand how the economy kind of evolves [ph].

A - Luiz Felipe Taunay {BIO 17416804 <GO>}

Regarding -- and I've received one question from Guilherme Costa from Itau BBA. We noted that spreads continue to evolve positively, but the loan portfolio reduction cost contraction in the NII, credit related NII. Could you comment your expectations for NII in 2016, especially given the scenario that you have for Selic of a cut of 100 basis points?

A - Angel Santodomingo {BIO 15757370 <GO>}

Well, the first thing I have to say is that, what we included in the presentation is consensus numbers. So we do see the Selic going down by the end of this year, that I mean we -- I think in fact that we were one of the unique banks here in Brazil that had a clear call in terms of monetary easing by the end of the year when the consensus and the market was on the opposite side with almost 150 basis points of interest rate increases in the year. So we do think that the Selic will go down by the end of the year.

What will happen with the NII? Well, I already elaborated in terms of volumes, but we are managing our prices in embezzles and mix. If you see the last long series of quarters, in general terms, depending -- we'd some volatility but in general terms, we have been able to offset the mix effect with price management. And on top of that, I will also address -- also is still a low amount, I will also address the liability NII.

So I would be somehow positive also still with low amounts on the liability side. In terms of NII, obviously the volume impact will be there. I would say that in terms of NIM, we should be in positive territory. And the third component which is obviously the market component that's obviously we want to estimate.

A - Luiz Felipe Taunay {BIO 17416804 <GO>}

Regarding asset quality, we received six questions from Philip Finch from UBS; Guilherme Costa, Itau BBA; Flavio Yoshida from Banco Votorantim; and Nishio from Plural; and Lucas Lopes from Credit Suisse. So, starting with the more general questions. Given the current scenario of the outlook, how the bank perceives delinquency going forward? And more specifically do you -- regarding the -- for corporate, given that we saw an uptick in early delinquency in the previous quarter that was partially regularized this quarter. How do we see the outlook for corporates going forward as well?

A - Angel Santodomingo {BIO 15757370 <GO>}

Okay, thank you. With regards to credit quality which is one of the main issues currently in Brazil. I would like first to -- what I mentioned in the presentation, I mean, I would like first to repeat the efforts that Santander Brasil has landed [ph] in the last three, four years. I mean, this has been -- it is clear we have been doing the (inaudible) because this has been clearly reflected in our ratios. We have done in a strong convergence towards this and we are -- we're not only converged towards this but we remain clearly in comfortable levels under logic terms.

So -- and this is not kind of a -- this is not magic, this is obviously a reflection of knowing the client behavior, understanding the models, increasing diversification, improving kind of exposure, et cetera. So and this is -- again this is not virtual job, this is a job that has been done by the (inaudible) in the full operation I would say during the last two, three years. So having said that, how do we see quality going forward, obviously deteriorating. I would say, as I mentioned also in the presentation, marginally and specifically controlled, but obviously reflecting the situation that we have today in the economy.

If you ask me by -- I mean, trying to differentiate the behavior in between different segments, I would say that also this is not the case today in terms of NPL ratios. I would say that the normal trends would be that the retail sides will perform worse in relative terms compared to corporates, et cetera. Because as the crisis continues to be present, the capacity of surviving by the retail side is obviously lower, and that should be reflected.

Specifically speaking of the 15 to 90 days, I would say a couple of ideas here. Once we kind of normalize the behavior of the fourth Q that I mentioned in this presentation three months ago and we've got a specific issue that, on that same day was supposed to be solved, and it was solved just some hours after the presentation was done. But we decided to maintain what was real in the moment of the presentation.

The deterioration in corporates has been in the quarter, in the 15 to 90 days has been 30 basis points, and in retail as you can see has been 70 basis points. Okay. So how do we compare that, how do we put this in context. If we compare for example with the first Q in 2011 and 2012, which were the last credit cycle in which quality, as you know, deteriorated. The deterioration there was around 150 basis points in average, 140 basis points, 175 basis points depending on the quarter in retail which compares to our 60 basis points or 70 basis points deterioration in this Q. So we are speaking of half of that deterioration, and in the same moment, with the crisis that is already more -- almost three years long.

The same comparison in terms of corporates is also has the same, almost the same conclusion. It was 30 basis points compared to 90 basis points of average deterioration. So, the first idea is in the 15 to 90 days, we have seen a deterioration. Obviously, we should see a deterioration. It will be kind of a little bit of -- and really we didn't see that. Having said that, it is in relative terms limited and feel comfortable in terms of how we are controlling that. And why I say that, because as you see in the NPL ratio in the 90 days, the situation is flattish or controlled or deteriorating in a reasonable way.

So, we are doing our job in terms of -- in between the 15 to 90 days in terms of trying that clients do not go into the NPL situation after those 90 days. Our perspective is for both ratios that deterioration will continue at least until what I said before, the economy starts to show some kind of recovery also in a small quantity.

A - Luiz Felipe Taunay {BIO 17416804 <GO>}

Now, we start going to the more detailed questions about the asset quality. The first question is, has the BRL appreciation contributed to asset quality? Actually the BRL appreciation makes the reported NPL to be 5 basis points higher than it would be in case if BRL had not appreciated. The second question is, can you explain the diplomatic [ph] fall in the level of loan loss provisions in the first Q, 2016. Was it somehow related to FX changes?

A - Angel Santodomingo {BIO 15757370 <GO>}

Okay. In terms of Forex, the answer is no. I mean, if you see any (inaudible) simply. I mean, if you see -- the Forex effect, it has two sides, depending you -- if you compare the year-on-year or the Q-on-Q. And if you see the NPL ratio, the year-on-year moves from 3% to 3.3%, and specifically in companies from 2% to 2.1%. So, I really would not put a lot of emphasis here because what I mentioned before in terms of credit quality is not affecting.

And in terms of the fall or the drop in provisions in first Q, I would say that what I mentioned in the 4Q results. I mean, we did and we communicated and we published that we were making a specific efforts for companies. That meant that in the Q at that time, we climbed from almost 2.4 to almost 2.8 billion of provisioning. And now the levels of provisioning and returning back to 3Q levels, or even a little bit far upper compared to second Q. So cost of risk is more or less stable at these levels around 3.1%, 3.3%. And so I will more underline the behavior of fourth Q more than the third Q. So, normal levels of provisioning with a gain, potential deterioration going forward in a controlled way.

A - Luiz Felipe Taunay {BIO 17416804 <GO>}

And later, it came a question from Phillip Solomond, Morgan Stanley. The question regards affect Brasil, as a shareholder, can you share any details on the outlook of this business and if Santander has already provisioned the loans and active investments made?

A - Angel Santodomingo {BIO 15757370 <GO>}

This is a quick one. We don't -- a quick one. We don't speak about clients and we don't speak about levels of provisioning with them. The only thing I can say, and this is now with regards to whoever we are speaking is that the criteria that Santander Brasil applies in terms of provision is absolutely conservative. And I repeat, absolutely conservative.

A - Luiz Felipe Taunay {BIO 17416804 <GO>}

And lastly regarding asset quality, there was a question of whether there was any sale of credit portfolio. There was -- and I'm going to answer, there was a small sale of R$21 million. So, had no mature impact on any metrics or in terms of delinquency or gains or impact on the P&L.

So now moving topics, we are going to -- there is a question regarding other operating expenses from Carlos (inaudible), Banco do Brasil. The operating -- other operating expenses grew 49% quarter-on-quarter and year-on-year. What exactly impacted this line and what can be expected for the coming quarters?

A - Angel Santodomingo {BIO 15757370 <GO>}

Okay. Thank you, Carlos. This line is kind of volatile per se. So analyzing very short term effects in terms of Q-on-Q or year-on-year, et cetera tends to be a little bit difficult. What do we have there? We have all kind of things. I mean, we have from actuarial adjustments from variations in -- from the liability, from monetary adjustments on the liability side. Some expenses in terms of costs in terms of some judicial things. We have Serasa expenses which is a positive overall [ph]. So the concept of orders as you can imagine, and as we have shown in the past, is quite volatile. It is a little bit difficult to estimate and a little bit difficult to see a trendy line there given the -- as I said the Q-on-Q and the concept, because you have a full list of concepts within that line.

A - Luiz Felipe Taunay {BIO 17416804 <GO>}

Now, moving to tax rate, effective tax rate. We've received questions from Philip Finch, UBS; Lucas Lopes, Credit Suisse; Guilherme Costa, Itau BBA; and Tito Labarta, Deutsche Bank. The question is, what is the outlook for the effective tax rate? And if we can share some color on the volatility of the effective tax rate over time?

I'm going to answer this one. So if you will see in the quarter, hold on just a second. Yeah. The effective tax rate in the quarter was 10.9, right. And last year, the effective tax rate was 13.6, in 2014, it was also in the same neighborhood. So the effective tax rate that we had in this quarter is not that different from the effective tax rate that we had overall last year.

If one looks the behavior of tax rate last year, effectively there was major swings among the quarters, but because there are event like payment of interest out of capital that tends to make those swings on the quarter-on-quarter evolution. When we manage this, we are looking to daily figures. And as we indicated in the previous -- in the last quarter call, we indicated that we expect the effective tax rate for 2015 to move around between 15% and 20%.

We received one question from -- asset quality question from Phillip Di Rocco, MetLife. Can you give us some color on the levels of credit renegotiation, NPLs and loan loss provisions on this portfolio?

A - Angel Santodomingo {BIO 15757370 <GO>}

Well, we do publish this. I think, it is in the quarter report, both levels that have been (inaudible) the bank has been doing given the last full series of quarters. I think, it is absolutely flat if I'm not mistaken. So there is not really strong variations here. We continue to obviously to do an important effort as I mentioned before in the 15 to 90 days period in which we think that and we have tallied this in the last quarters.

We think that there is clear, an opportunity for the bank to be closer with the clients. This does not mean anything more than what I'm saying. It's just analyzing, making our risk [ph] department and our risk -- our model department active in terms of what is the health of our clients financially speaking. And with that in mind, we try to find solutions. And this has been like I'm saying for a long time. So there is no strong variations. The numbers you have then, as I mentioned in the report, in the quarterly report and we will continue in the same way.

I would say that in general terms, not only Santander Brasil, the Group has proven to be very capable in this territory. As you know, the Group has gone through different crises in different markets during the last 10 years, 15 years. And the capacity in terms of recoveries, renegotiations, et cetera is already are proven fact. So we are doing the same thing here, which means that we optimize our position and knowledge with the clients to avoid future impacts.

A - Luiz Felipe Taunay {BIO 17416804 <GO>}

We have no more questions that we received from the web. Now we can go to the questions on the phone, please.

Operator

We will now start a Q&A session for investors and analysts by phone. (Operator Instructions) Our first question comes from Mr. Rafael Frade from Bradesco.

Q - Rafael Frade {BIO 16621076 <GO>}

Hi, good morning all. I have two questions. One a follow-up on the question related to taxes. In the quarter, I understand that you used some tax loss that you had in the past. How much more you would still have of those tax loss to be used. And if you intent to use this throughout the quarters or maybe concentrating in specific quarter?

And second, I would like to get a sense of how relevant was the impact of the changing interest rates on the results in the quarter if it was something relevant or not, if you can give any color on this would be great?

A - Luiz Felipe Taunay {BIO 17416804 <GO>}

Thank you, Rafael. So the amount of DTAs, that of balance equals R$1.2 billion as of March 2016. How this is going to be used over time, it will depend on the conditions. Regarding your second question, Angel is going to answer.

A - Angel Santodomingo {BIO 15757370 <GO>}

Yes. Well, I would say that you have kind of the effect overview of the mark-to-market but that goes through capital. In general, in terms of our portfolio, our overall [ph] portfolio, you know in specific terms has been totally stable, so have not done -- we have not been active given the market volatility and the situation of the financial markets in general terms.

And obviously we do have a sensitivity now, but I would say that here, probably the more important impact is what I mentioned in the presentation is our price policies, our spread evolution and how we are pricing the -- our products and our services. In terms of sensitivity, I think we have said in the past, now I think it is a 100 basis points decrease, increase impact around R$400 million or EUR100 million. But as I said, we have been absolutely or fairly non-dynamic at all in this quarter.

Q - Rafael Frade {BIO 16621076 <GO>}

Okay. Just a follow up on the last question, putting (inaudible). Your -- the results came in the order line on your NII was significantly higher than the fourth quarter. What would be a good number to we work with -- is this first quarter number with the fourth quarter, something in between?

A - Angel Santodomingo {BIO 15757370 <GO>}

Thank you. I have mentioned this in the past. I mean the market component, in fact if I remember well, in 4Q results, I was mentioning that we were having a quite a good quarter in terms of markets. If you see historically speaking, the range is in between one point -- if I take the outliers 1.3, 1.4 to 1.6, 1.7. So this could be -- we could see this quarter as a positive one in terms of market, the answer is yes.

Do we see this as a maximum or that we don't see reaching those levels again, I wouldn't say so. I mean, this depends a lot on, as you can imagine on all the activities that we have around markets, in terms of treasury, in terms of all our departments in the wholesale banking, et cetera. And they have -- we have had a quite positive first Q results in that sense, and we continue to perform absolutely positively in the second Q. So difficult to say, difficult to estimate, it is -- you are right, this is quite a good quarter in that sense, but I wouldn't say that this is nonrepetitive at all.

Q - Rafael Frade {BIO 16621076 <GO>}

Okay. That's perfect. Thank you.

Operator

(Operator Instructions) Our next question comes from Mr. Domingos Falavina from JP Morgan.

Q - Domingos Falavina {BIO 16313407 <GO>}

Hi. Good morning all. Congratulations on the results. I though some of the trends are good. My question is out into two fronts. Just -- we understand -- I understand that the line out there is highly volatile. But how should we think about this line versus rates. For an example, we did see a significant rate reduction. If we look at the curves two-year or five-year over the last three months, how much of those results were benefited from this rate cut and how should we think going forward on the moves of the one-year or five-year rates in this line?

A - Angel Santodomingo {BIO 15757370 <GO>}

Domingos, I don't know, if you're referring to the orders in the NII or the orders in the costs.

Q - Domingos Falavina {BIO 16313407 <GO>}

In NII, I'm sorry.

A - Angel Santodomingo {BIO 15757370 <GO>}

Sorry?

Q - Domingos Falavina {BIO 16313407 <GO>}

Within NII, I understand, there were some reclassifications (inaudible) --

A - Angel Santodomingo {BIO 15757370 <GO>}

Okay. Thank you for your comment. I already elaborated here. I mean this is -- it has not only to do with a specific Selic movements or pure [ph] movements, like I said. It has to do a lot with our activity on what I mentioned before, treasury, et cetera. So in that sense, as I mentioned, our wholesale department and area is absolutely well positioned. I remember telling you that we are first players in Forex along with first in advisory equities, et cetera. And that means this type of performance in that line of (technical difficulty) I don't like, to (inaudible) I don't like the word orders, because it's specifically, basically markets, et cetera but this has to do directly with that.

I mentioned my -- already in my thoughts, it's a good quarter. Can we repeat it? I hope so. So, we try to -- are we trying to repeat it. Yes, we are having already, I mentioned, a good second Q in that sense, but I wouldn't link it to, specifically to the pure [ph]. Obviously, it has to do, because volatility and clients, et cetera move more or less depending on what happens. And trust the bank benefits more or less, but difficult to estimate it. I would -- in general terms if I have to put myself in your place, I would kind of analyze what has been the historic evolution. I mentioned already the ranges, and then see how we outperform or not against those levels.

Q - Domingos Falavina {BIO 16313407 <GO>}

Yeah. I'm sorry. I didn't mean like for you to forecast. I asked, if the interest rate curve shift upwards or downwards, it has a direct impact on the client.

A - Angel Santodomingo {BIO 15757370 <GO>}

Felipe, do you want to elaborate?

A - Luiz Felipe Taunay {BIO 17416804 <GO>}

Yeah. Domingos, you have the trading books which are the wholesale traders that I have mentioned. And then of course they trade as well, the interest rate markets, right. But it's not a structural thing, one day they can be long, the other day they can be short. So, it doesn't mean that structurally speaking, you have a fine here. They vary a lot their positions over time. So, it's difficult to give any sort of sensitivity or any sort of direction.

Q - Domingos Falavina {BIO 16313407 <GO>}

No. Perfect.

A - Angel Santodomingo {BIO 15757370 <GO>}

That's why I was mentioning, you know that at the end of the day, the activity of these guys that affect and that have that kind of impact. I wouldn't link directly if x basis points, et cetera, because it has to do with that activity. Okay.

Q - Domingos Falavina {BIO 16313407 <GO>}

Okay. Understood. Thank you.

Operator

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>}

Well, I think that's it. Another quarter, I would like to stress that we continue to deliver. We do not want to excel in one Q and do the opposite in the next Q. So, the idea is recurrency, is continue to deliver. We are increasing little by little and we are going into the direction that we are expected. We want to deliver what we have said to the market, and we strive to do it. So thank you for your presentation -- for your presence here, and I look forward to seeing you in the next quarter.

Operator

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