

Q1 2009 Earnings Call

Company Participants

- Alfredo Egydio Setubal, IR Officer
- Silvio de Carvalho, CFO

Other Participants

- Daniel Abut, Analyst
- Daniela Ueda, Moderator
- Federico Rey, Analyst
- Jorg Friedemann, Analyst
- Jorge Kuri, Analyst
- Marcelo Telles, Analyst
- Saul Martinez, Analyst
- Victor Galliano, Analyst

Presentation

Operator

Ladies and gentlemen. thank you for standing by. This is Itau Unibanco Holding conference call. At this time all lines are in a listen only mode. Later there will be a question and answer session and instructions to participate will be given at that time. (Operator Instructions) As a reminder, this conference is being recorded.

At this time, I would like to turn the conference over to Ms. Daniela Ueda of Financial Investor Relations Brazil. Please go ahead.

Daniela Ueda

Good morning. Welcome to Itau Unibanco Holding conference call to discuss the First Quarter 2009 earnings. I would like to remind you that this conference call is being broadcast live on www.itauunibancoir.com. A slide presentation is also available on this site.

Before proceeding, let me mention that forward-looking statements are being made under the safe harbor of the Securities Litigation Reform Act of 1996. Actual performance could differ materially from those anticipated in any forward-looking comments as a result of macroeconomic conditions, market risks and other factors.

With us today in this conference call in Sao Paulo are Alfredo Egydio Setubal, Investor Relations Officer, Sergio Werlang, Executive Vice President of Risk Control and Finance, Silvio de Carvalho, Chief Financial Officer, Alberto Fernandes, ITAU BBA's Vice President and Marco Antunes, Accounting Director.

First, Mr. Alfredo Setubal will comment on the First Quarter earnings. Afterwards, management will be available for a question and answer session. It is now my pleasure to turn the call over to Mr. Alfredo Setubal.

Alfredo Egydio Setubal {BIO 1528623 <GO>}

Good morning. Welcome to our First Quarter conference call. For those who are following through the Internet and through the slides, we are starting on the slide number two, highlights.

The first highlight is the earning; recurring net income of BRL2.5 billion, with an increase of 9.5% when we compare to the last quarter of 2008. This means a recurring ROE of 23.1%. After the deduction of the extraordinary result, net income of BRL2.015 million with an annualized ROE of 18.2%.

The second highlight is the extraordinary items. We bought during the quarter 3.58% of the capital total -- of Redecard. With this acquisition, Itau Unibanco is the controller -- is in total control of Redecard with more than 50% of the capital. And this acquisition we paid a premium of -- that we deducted in these results of the First Quarter, and the net after tax impact of this acquisition is BRL491 million.

Another extraordinary item is the impact of BRL56 million related to economic plans that clients are (suing) the Bank.

The third highlight is related to the provisions that we made in the last quarter of 2008. You remember that we made additional provision of BRL4.6 billion in that quarter. We achieved almost BRL8 billion in additional provision above the level required by the Central Bank. In this quarter, we used BRL439 million (sic; see presentation) of these additional provisions to compensate the increase in delinquency in the quarter.

The fourth highlight is related to non-performing loans. We show in this quarter, as expected, an increase in the NPL that achieves 5.6% against 4.8% in the last quarter of 2008.

And the last highlight is the BIS ratio and tangible equity. The BIS finished with 16.5% in the quarter with a Tier 1 of 12.7%. Of this Tier 1 of 12.7%, we have a tangible equity index of 9.9%. Both numbers are very high and show a very strong balance sheet and position that we have today to face the more difficult environment in terms of economic environment.

On the chart number three, we can see more highlights; more numbers. I will highlight total assets of almost BRL619 billion; a little bit lower than the numbers that we showed in

the last quarter of 2008, with a reduction of 2.3%. When we compare with the First Quarter of 2008, we can see that the total assets increased 27.7%.

Loans represent BRL272 billion, here including all the endorsements and sureties. A little increase when we compare to December, an increase of 0.3% and 25.1% when we compare to March of 2008.

The stockholders' equity finish with BRL45 billion.

On chart number four, we can see the recurrent net income and the deductions that we made related to the amortization of the goodwill of the acquisition of Redecard shares and also the economic plans that we made in terms of provisions in this quarter. And we finished with a net income of BRL2.015 billion compared with BRL1.8 billion of the last quarter of 2008.

On chart number five, we can see in more details our result. Managerial margin achieved BRL10.5 billion with an increase of 6.6% in terms -- when we compare to the December of 2008. This number is split between financial margin with customers of BRL9.3 billion and financial margin with the market, BRL1.2 billion.

Banking fees and banking charge with a reduction of 13.2%, we are going to talk a little bit more detail in some charts ahead.

Managerial, the result from insurance, pension plans and capitalization before claims, BRL1.4 billion, almost in line with the Fourth Quarter of 2008; managerial financial margin and banking fees, BRL15.8 billion, in line with the last quarter of 2008.

We can see in the next line that the loan losses increased substantially in this quarter, achieving BRL3.9 billion compared with BRL2.9 billion in the Fourth Quarter of 2008, because of the deterioration of the economic scenario in the last quarters now we can see. As we told during the conference call related to the results of 2008, our expectation was that this number was going to increase and this happened in this quarter and probably will continue to happen in the quarters ahead.

We used, like I said, part of the additional provision that we made in the balance sheet of 2008 in a total amount of BRL439 million (sic; see presentation).

Non interest expenses, achieved BRL6.4 billion in the quarter, lower than the BRL7 billion in the last quarter of 2007, but higher than the BRL5.5 billion in the First Quarter of 2008.

We don't see much synergies yet in terms of balance sheet of Itau Unibanco, that we are going to see more clearly in the coming quarters. We used in this First Quarter around BRL100 million of provision that we made for the integration of the two banks that are not included in these numbers. So at the end, we finish with a recurring net income of BRL2.5 billion.

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Now on slide number six, we can see loans by type of customers. We see the total amount of loans of BRL272 billion. Of this, BRL94 billion is related to individuals. We continue to see that vehicles continue to be the most important part of the individual credit portfolio with BRL48 billion, a little bit more than half of the total credit for individuals. The vehicles portfolio increased almost 2% in this quarter.

When we see the numbers for companies, we see a little decrease in the quarter of 0.4%, mainly because of corporate business that reduced the total portfolio by 1.5% because of lower demand by big companies. But we see some increase in small and middle market segment that increased in the quarter 1.8%.

The credit that we have in the other countries that we have presence in, the South America, almost in the same level that we were in the end of the year.

On chart number seven, we can see non-performing loans and coverage ratio; the average non-performing loans, 5.6%, with an increase of 0.8% when we compare to the end of 2008. We split individuals and companies. We can see the green line, 9.8% for individuals have increased when we compare to 8.1% at the end of the year.

And when we see companies here, big companies and small and medium size segments, 2.5% compared to 1.7%. So all the segments are showing some deterioration as expected, as we said that was in the last conference call and the main reason, because we made the additional provision at the end of the year of 2008.

Even with this deterioration, we continue to have a very good cover ratio for loans overdue more than 60 days with 162% when we compare with 184% at the end of the year. 162% is a very comfortable and strong position to face increasing the liquidity that we continue to expect in the coming quarters.

On chart number eight, we can see some ratios for loan losses when we compare to our credit portfolio. On the blue line, for those who are following through the Internet, we can see provisions for loan losses, considering specific and generic provisions here. Compared to the total credit portfolio, we see that achieved 6%.

We included this time the green line for the first time, that consider the loan losses for specific, generic and additional provisions compared to the total credit portfolio and this number achieved 9%. So we can see that we have very good provisions in our balance sheet to face the increase in delinquency that we expect.

On chart number nine, funding and managed resources, we can see on subtotal number two, funding from customers, that we are in the same level when we compare to the end of 2008. The main reason here is because we consider the funding, that the deposits that we have from our clients in a good level. We are in a very liquid position in terms of cash in the bank, so we are not paying to have more deposits at this level, because demand for credit also is not very heated, because of the slowdown of the economy.

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So we are seeing more transfer from investors investing more in mutual funds. Again, that's the reason we are increasing the total money from clients considering deposits and reserves for pension plans and assets under management, an increase of 2.6% in the total clients' money with us at the end of the quarter achieving BRL615 billion.

On chart number 10, we can see that our funding position compared to our credit portfolio is very sound. 85% of funding of deposits are being used for the loan portfolio in a much better position when we compare to the end of the First Quarter of 2008, when we were 98%, because the demand for credit was at that time very heated.

On chart number 11, we can see banking fees and banking charge, a reduction in this First Quarter, especially related to current account services, because we stopped charging a credit register renewal charge. This means BRL118 million and also, we made reverse provision of BRL95 million, related to these current (service), related to 2008.

Also we can see reduction in the credit cards fees in the First Quarter, more related to the seasonal use of credit cards. Of course, in the end of the year, the Fourth Quarter, because of Christmas and vacations the use is much higher. It's normal to have this reduction in the First Quarter.

On chart number 12 we can see non-interest expenses, lower in this quarter when we compare to the last quarter of 2008. Also here we have seasonal effect, because of vacations and provisions that we made before, especially related to personnel expenses that we can see here, a reduction of 10%.

But anyway, we continue to be very focused in controlling expenses and we are not seeing yet much of the synergies that we are going to achieve in the coming quarters, because of the merge between Itau and Unibanco.

Efficiency ratio on chart number 13, in the quarter 45.3% and in the last 12 months 47.9%; we continue to be very optimistic that we are going to see numbers lower than we had before at Itau, in terms when we achieve a higher level of synergies in the merge.

On chart 14 the BIS ratio 16.9% (sic; see presentation), 12.2% (sic; see presentation) is Tier 1, with a very strong number, and tangible equity 9.9% of this 12.7%.

In terms of segmentation, on slide 15, we at Itau used to segment in these four blocks, and here we change it. Now Treasury are together with the Corporation, remembering that the Corporation mainly is the return of the excess of capital that we have.

When we see on chart 16, and that is the last one, we can see the pro forma of these fourth segments. We can see the recurring net income of the Commercial Bank of BRL516 million of results for the Commercial Bank. That means a RAROC of 11%.

In terms of our Wholesale Bank, Itau BBA, BRL377 million with a RAROC of 13.6%; Consumer credit continued to be very strong, BRL637 million in net income with a RAROC

of 35.2%.

And Corporation and Treasury in this quarter, because of the opportunities in the market, have very good gains. We finished with BRL1.03 billion, a RAROC of 57.4%. This completes BRL2.562 billion in recurrent net income with an ROE of 23.1% in the quarter.

Now this finish the presentation and we are open for your questions. Thank you.

Questions And Answers

Operator

Thank you. Ladies and gentlemen. we will now begin the question and answer session. (Operator Instructions) Excuse me; our first question comes from Mr. Daniel Abut from Citibank.

Q - Daniel Abut {BIO 1505546 <GO>}

Good morning, gentlemen. On the very good information you give on page seven, which is the evolution of your NPL ratio divided by segment, if I could have a couple of questions.

First of all, if you look at the ratio overall, which increased 80 basis points quarter-on-quarter, yesterday in the conference call of Bradesco we saw a very similar increase in their NPL ratio. They said very strongly that they believe that with time on our side we will verify that this quarter would have been the worst in terms of one shot quarter-on-quarter increase in the NPL ratio of about 80 basis points. And they would expect further increases but at more moderate in the second and Third Quarters, and the ratio to peak somewhere in the Third Quarter.

Do you agree with that statement as far as the trends that you are seeing in your own portfolio? And if so, at what level do you think your NPL ratio could peak and when?

And the second question, if you could give us a bit more information on the NPLs on individuals, which saw a sharper increase of 170 basis points quarter-on-quarter. Was it widespread in your different products? Or was it concentrated in certain products? Could you elaborate a bit more of what drove that sharp increase? Was it credit card? Was it car loans? Any more color that you can give us?

A - Silvio de Carvalho {BIO 20450971 <GO>}

Daniel, Silvio speaking. Just to give an idea about the delinquency ratios, we are expecting for 2009 the deterioration will continue. Today we report 5.6%. We expect that can achieve in the total of the Bank 6.9%, probably during the second semester in the end of Third Quarter, but it's a guess that our model show us, but every day we look at.

In terms of individuals, we expect that today this will continue to deteriorate, but (at least the same). We continue to expect that it will continue to deteriorate. We are not having any specific segments that will see deteriorations. It's in all the segments in the products.

Q - Daniel Abut {BIO 1505546 <GO>}

Silvio, if I could follow-up. It seems to me that you are expecting a similar increase of what we saw this quarter in second and third, another 60 or 70 basis points per quarter. If that's the case should we assume that your coverage -- your excess coverage -- your excess reserve will be consumed in similar levels that we saw in this quarter, about BRL500 million or so per quarter, over the next two quarters? And how low can your coverage ratio get, it's currently at 162%, for you to remain comfortable with it?

A - Silvio de Carvalho {BIO 20450971 <GO>}

The idea, Daniel, that we constitute this (provisional totalizing) if they appear in our model, a sign of that we have a deteriorate -- a specific deterioration in the economy. We don't have the precise figures; depends on the (other) modules. This is not figures that you achieve after this to close the books. But it is a consequence of the model that we are running and this shows the number that we utilize.

Q - Daniel Abut {BIO 1505546 <GO>}

So you may or may not continue to utilize it, but it's (subject to that)?

A - Silvio de Carvalho {BIO 20450971 <GO>}

Yes, our expectation that we'll continue, probably the (coverage) ratio will come down, but we are not expect that to achieve 140%.

Q - Daniel Abut {BIO 1505546 <GO>}

You are not expecting they will get as low as 140%?

A - Silvio de Carvalho {BIO 20450971 <GO>}

Yes.

Q - Daniel Abut {BIO 1505546 <GO>}

Thank you, Silvio, that's very useful.

Operator

Excuse me; our next question comes from Mr. Jorge Kuri from Morgan Stanley.

Q - Jorge Kuri {BIO 3937764 <GO>}

Hi. Good morning everyone. I have three questions if I may. The first one is on financial margins. Given that most banks in Brazil are asset sensitive, including you, lower selling

grades normally put pressure on margins. I'm not surprised you reported that financial margins fell 30 basis points this quarter, from 10.3 to 10.

So as rates continue to fall throughout the year, how much pressure should we expect on margins? And just doing the quick math here, it seems that your margins should fall probably around 100 to 120 basis points this year. Are these more or less the numbers that you are expecting? Or what is your estimate for the rest of the year?

A - Silvio de Carvalho {BIO 20450971 <GO>}

The papers on the scenario that we are -- you are -- we are working on scenario that the (inaudible) will achieve a 90.75 in June. Today it's 10.25. This means that in the second semester probably you have more impacting our net interest margin that we will come down; probably we will achieve 100 basis points.

Q - Jorge Kuri {BIO 3937764 <GO>}

So 100 basis points reduction from here?

A - Silvio de Carvalho {BIO 20450971 <GO>}

Yes.

Q - Jorge Kuri {BIO 3937764 <GO>}

Thanks. And the second question -- thanks, Silvio. The second question is on pricing power. We've heard from most banks the way they're dealing with the compression in bond spreads is through charging higher spreads on lending.

However, the aggregate banking data shows that spreads have been falling every month this year, and you actually also -- you were kind enough to provide us very insightful information about interest sensitive transactions and spread-sensitive transactions, and in both cases you showed a decline in spreads.

Do you feel that pricing power is weakening, maybe because of the economic slowdown, or from competition, or from Government mandates on Banco de Brazil? Or what do you think explains this compression in spreads charge and to consumers? And how do you expect this to play out the rest of the year?

A - Silvio de Carvalho {BIO 20450971 <GO>}

In reality the spread is stable. We have some movement in the spreads. We increase in the first moment. Now it's decreasing a little bit. But we are not expecting that will decrease so much, because of the increase in delinquency. In reality, today we are much more selective and we are not targeting increased market share. In reality, we are preserving our margin. That's our focus.

Q - Jorge Kuri {BIO 3937764 <GO>}

Alright. Then the final question is on expenses. You reported that personnel and admin expenses fell 11% quarter-over-quarter. I know there's a seasonality involved here, but it seems that this decline also includes some merger related cost cutting. For example, Bradesco's personnel expenses fell like 4% quarter-over-quarter. Yours fell 11% quarter-over-quarter, so there's clearly a much better performance that probably is explained beyond the seasonality. How much of what we saw this quarter was merger related reductions, and what is your expectation for cost cutting this year?

A - Silvio de Carvalho {BIO 20450971 <GO>}

We consider that this quarter is seasonal. We are not expect that will be recurrent for the next quarter. We -- in reality the synergies, it's very small. We reduce 2,000 employees. We mention that the normal turnover of the Bank means a reduction 10,000 people during the year. I think we will continue in this track.

We expect that this year the synergy will be small, probably the most part of the synergy will happen in 2010/2011.

Q - Jorge Kuri {BIO 3937764 <GO>}

Alright. So most of what happened this quarter is seasonal, that's what you're saying?

A - Silvio de Carvalho {BIO 20450971 <GO>}

Yes.

Q - Jorge Kuri {BIO 3937764 <GO>}

Alright, thanks a lot.

Operator

Excuse me; our next question comes from Mr. Saul Martinez from JPMorgan.

Q - Saul Martinez {BIO 5811266 <GO>}

Hi. Good morning gentlemen. First question is on your accounting policies. I'm curious as to why the logic changed for how you classify additions and subtractions to excess reserves, as recurring or not? Obviously in the past, additions to your excess reserves have been treated as a non-recurring item.

This quarter you released excess reserves, and classified them as core or recurring income, and I just want to get a sense for what drove the logic of that change and if you continue -- should we expect to continue to have essentially reserve releases benefiting your book value in your earnings -- your recurring earnings, going forward?

A - Silvio de Carvalho {BIO 20450971 <GO>}

Well this subject is polemic. Many analysts mention that we have to have this approach, but many of them mention that we are okay. And we discuss this subject in relation to the

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reversal of the reserve a lot here in the Bank, and our conclusion, our consensus, that you are much better to report in the way that we report, because when you constitute these provisions in the end of the year, we are constituting an extraordinary gain.

If you did do that, we have not to constitute this provision. It is better to constitute it here, in the quarter, not to report as historic at that time. The principal that we take in consideration, that it is -- this situation is not recurrent situation. It is just for 2009 that we have this situation in Brazilian economy. That's the reason that we do not put this figure in the recurrent phase.

Q - Saul Martinez {BIO 5811266 <GO>}

Yes, okay. No. I understand that, but beyond the provision --

A - Silvio de Carvalho {BIO 20450971 <GO>}

Sorry, (inaudible) disclosure very, very in detail and you can choose our material, the option that we want.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay, no, that's fair, but I guess beyond -- I guess what was clear to me though, is beyond the big provision, even in the Fourth Quarter, in the past when you have taken additional or -- what you classify as extra reserves, I remember, I think in '07 or in '08 you did that for a stress scenario for your auto book. You've always treated that as non-recurring and it just seemed a little bit inconsistent with your past disclosures this quarter, to treat that as sort of a recurring net income figure.

And don't get me wrong, I think that is part of your capital. I've long argued that that was the best source of balance sheet strength. But it did -- to me, and this is my opinion, it did seem a bit inconsistent with previous accounting standards and previous disclosure standards.

Second question is, I'm sorry, on your effective tax rate, Silvio, what do you expect -- obviously -- how much more do you have in tax credits? And what do you expect for your effective tax rate going forward, with the potential increase in the social contribution rate?

A - Silvio de Carvalho {BIO 20450971 <GO>}

Okay, we have a footnote that to disclosure, that is BRL2.2 billion. That's the total tax credit that (is booked), yes. And let me tell you our principal, we -- the Government increased last year the social contributions from 9% to 15%. And the FIPRA (inaudible) here in Brazil and the banks in general, believe that this measure from the Government is not fair with the other sect -- of the financial segment.

This is a discretionary approach and we complain against that. And we believe that we'll win. That's the reason, because we keep 34%. That's the total income tax, plus social contribution. And this means that we'll continue to report lower than 30% in the line of income tax rate.

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Q - Saul Martinez {BIO 5811266 <GO>}

Okay, but you've had basically what, 25%/26% in recent years. And I guess you can partially activate those tax credits to -- while the court case gets resolved, to shield your effective tax rate. But if you don't win, when would you utilize all of those tax credits?

A - Silvio de Carvalho {BIO 20450971 <GO>}

If you don't win we'll book ahead (in) using tax, because you have to book all the tax credits immediately. That's the accounting procedures.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. And in that scenario your effective tax rate would go up by 6percentage points to about (32%)?

A - Silvio de Carvalho {BIO 20450971 <GO>}

Yes. But we are paying already. We are paying already, because the Medida Provisoria is in the market already, you have to attend that. And we are paying that; but we are in the same moment, booking the tax credit.

Q - Saul Martinez {BIO 5811266 <GO>}

Yes. But your effective tax rate in that scenario would go up obviously by 6percentage points?

A - Silvio de Carvalho {BIO 20450971 <GO>}

No doubt. No doubt, but you don't have your other measures to comply.

Other point, we are consolidating Redecard now. Redecard has a high income tax rate. This changes the total consolidated figure.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay, what do you expect for the effective tax rate in -- going forward in the rest of the year and for 2010? Do you think it's still 26%, 27% or --?

A - Silvio de Carvalho {BIO 20450971 <GO>}

Well it will be around 28% -- 26%/28%.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. Great. Thank you very much.

Operator

Excuse me; our next question comes from Mr. Victor Galliano from HSBC.

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Q - Victor Galliano {BIO 1517713 <GO>}

Hi. Good morning, yes, a couple of questions. First of all, if you could give us any kind of idea of guidance on loan growth for this year? And if you could maybe give us again, something of a breakdown there, in terms of Consumer, Corporate and SME?

And on -- my other question is about personnel levels. We saw the personnel level come down 2.4% quarter-on-quarter, which meant I think, 2,600 people left or whatever. Is this a natural attrition rate? Were there any layoffs included in that number? And can you tell us what you kind of expect going forward, if this is a natural attrition rate? Thank you.

A - Silvio de Carvalho {BIO 20450971 <GO>}

In terms of loan growth, we expect that this year we will grow around 10%/15%. If you break down this level, we can mention that in our market we expect that we will grow 25%. Remember that the base is small. Car loans will be around 10% to 12% in the level and the SME around 17%. Then the other segments around 15%.

Q - Victor Galliano {BIO 1517713 <GO>}

Thanks.

A - Silvio de Carvalho {BIO 20450971 <GO>}

In terms of the expenses, important information that we are not hiring anybody. Today in reality we are adjusting the workforce in (relation) for the areas that need the personnel and in the areas that (has) excess, and we are allocating people here. But normally, like we mention sometimes, the normal turnover of the Bank is around 10,000 people. This will continue in the next quarters.

Q - Victor Galliano {BIO 1517713 <GO>}

10,000 a year.

A - Silvio de Carvalho {BIO 20450971 <GO>}

Yes. In a year.

Q - Victor Galliano {BIO 1517713 <GO>}

In the merged entity, yes?

A - Silvio de Carvalho {BIO 20450971 <GO>}

Yes.

Q - Victor Galliano {BIO 1517713 <GO>}

Okay. Thanks.

Operator

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Excuse me; our next question comes from Mr. Federico Rey from Raymond James.

Q - Federico Rey {BIO 21612520 <GO>}

Hi. Good morning, gentlemen. I have one additional question regarding the loan growth. If I understood correctly, you're expecting to increase in terms of loans in the range of 10% to 15% during 2009.

And my question is, if you expect a strong recovery during the second half of the year? And what would be your expectations for the next year? My question is, if you're expecting -- what should be the recovery in terms of being strong or not strong, because if you consider increasing 15% year-over-year and we are considering no growth during the first half, you should be assuming that the recovery could be somewhat strong.

A - Silvio de Carvalho {BIO 20450971 <GO>}

We are expecting that the economy will grow in the next quarter, more in the second semester. Remember that the economy is more heated in Brazil in the Fourth Quarter. This will reflect probably in the figures -- in the low figures. That's our impression.

In 2010 depends on the GDP growth. We expect that GDP will grow around 4%. Consider this GDP growth 4%, we expect that it currently will grow around 20%/25%.

Q - Federico Rey {BIO 21612520 <GO>}

Okay. Thank you.

Operator

Excuse me; our next question comes from Mr. Marcelo Telles from Credit Suisse.

Q - Marcelo Telles {BIO 3560829 <GO>}

Hi. Good morning, gentlemen. I have a follow-up question on Jorge Kuri's comment on the net interest margin; actually two questions on that front.

The first one, I noticed that you reclassified the FX gains that you had in the Fourth Quarter from financial margin with market to financial margin with customers. And since the FX rate was very stable, March compared to December, I think that -- the fact that you probably did not have the same amount of FX gains in the First Quarter that would eventually explain the reduction in your margins you reported from 10.3% to 10%. So I want to understand, what was the rationale for you not to consider the FX impact on your margin -- the financial margin with the market but with customers?

And I want to know if you would agree with the fact that if you exclude or if you reclassify, if you assume the same classification you had before on the FX gain that your margin would actually have expanded in the First Quarter versus the Fourth Quarter if you had kept the FX gains classified as financial margin with the market? Thank you.

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A - Silvio de Carvalho {BIO 20450971 <GO>}

Our model today to operate with our operations is not to assume any position with currency. We are totally hedged.

The calculation of these operations in terms of exchange gain or something like that, it's a virtual calculation. We decided to improve our model just to report these Treasury operations. That for us makes sense, because in reality we are operating with -- in our position we see our equity, the working capital of the Bank invested in Treasury position -- Treasury bonds. It's for us, this is evolution of how do we report our model. For us does not make sense to come back to show this, because it was a virtual gain. It's not -- it was a (theoretical) calculation. For us the model that we report today represents model operation.

Q - Marcelo Telles {BIO 3560829 <GO>}

Okay. Thank you; just one follow-up question on that. Of course, it was a virtual gain on your margin, but at the same time you compensated in your tax, right? Because you needed to be over hedged because of the tax deductibility issue. But on the margin, it did distort your margin before. Is that correct (as a price assumption)?

A - Silvio de Carvalho {BIO 20450971 <GO>}

Is it correct and we are reporting the same way that we report before. You can see these adjustments in our margin this quarter were very small, because we don't have movement in the currency. But we report it the same way when you consider the tax impact.

Q - Marcelo Telles {BIO 3560829 <GO>}

Okay. Great. Thank you. Thanks so much.

Operator

Excuse me; our next question comes from Mr. Jorg Friedemann from Merrill Lynch.

Q - Jorg Friedemann {BIO 15405752 <GO>}

Hello, gentlemen. I have actually two questions. The first one within provisions for civil litigations, it's specifically regarding the provisions for economic plans. Do you have the amount that is currently sitting in the balance sheet?

In addition, how should we view those provisions going forward? Do you have an estimate of how much we still have to provision for economic plans and how long it should last?

And my second question refers to potential client overlapping. Following the merger with Unibanco, I would appreciate if you could give us some numbers on overlapping, first, institutional clients, SME, Private Bank and credit cards. Thank you.

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A - Silvio de Carvalho {BIO 20450971 <GO>}

I've got to take this one. This subject is in relation to provision for litigations. We consider only the situation that is passed to the Justice. That's our accounting procedure. It is a subject that is very, very complicated, because it's related in the past with the economic plans. In reality we have the assets against the (inaudible). We didn't book the assets against the (inaudible). It is a subject that we have to continue to discuss in Brazil. But we'll continue to provision our expectations the level that we provided.

In terms of our (level of) customers that we saw, when you compare the customer base Itau and Unibanco it's very small compared with our expectation and the expectation of the market. Very, very small in Private customers, we have 7%; in SME companies around 8%; credit cards around 6%.

In wholesale we expect 100% and this happened 100%. This happened in BankBoston. To operate in this segment, it means that you have to provide limits. If you have limits, and this Bank has a very, very strong capital base, then you can have conditions to assume more risk. And in reality we open more limits to the wholesale customers.

Q - Jorg Friedemann {BIO 15405752 <GO>}

Okay. Thank you.

Operator

Excuse me, ladies and gentlemen. this concludes today's questions and answer session. Mr. Setubal, at this time you may proceed with your closing statement, sir.

A - Alfredo Egydio Setubal {BIO 1528623 <GO>}

Thank you for your presence here with us, this First Quarter conference call.

We believe that the numbers that we release are very strong, especially in terms of provisioning for loan losses. Like we said, we expect these numbers to increase, because of the situation of international economy and also here in Brazil. But we think that we are in a good base to face all these situations. Synergies will appear of the merger in the coming quarters, as long as we go on in the integration.

Thank you for your time and we expect your presence again for the Second Quarter conference call. Thank you.

Operator

Thank you. That does conclude our Itau Unibanco Holding earnings conference call for today. Thank you very much for your participation and have all a good day.

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