

Q4 2010 Earnings Call

Company Participants

- Francisca Stella Faga
- Roberto Setubal, CEO

Other Participants

- Alexandre Sabina, Analyst
- Daniel Abut, Analyst
- Eduardo Nishio, Analyst
- Jason Mollin, Analyst
- Jon Prigoff, Analyst
- Jorg Friedemann, Analyst
- Marcelo Telles, Analyst

Presentation

Operator

Ladies and gentlemen. thank you for standing by. This is Itau Unibanco Holding conference call. At this time, all participants 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. Francisca Stella Faga of Financial Investor Relations, Brazil. Please go ahead.

Francisca Stella Faga

Good morning. Welcome to Itau Unibanco Holdings conference call about 2010 results. This conference call is being broadcast live on www.itaunibanco.com/ir. 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 Roberto Egydio Setubal, CEO; Alfredo Egydio Setubal, Investor Relations Officer, Candido Botelho Bracher Itau BBA, CEO; Sergio Ribeiro da Costa Werlang, Executive Vice President of Risk Control and

Finance; Caio Ibrahim David, Chief Financial Officer, Rogerio Calderon, Corporate Controller and Head of Investor Relations; and Marco Antunes, Accounting Officer.

First, Mr. Roberto Setubal will comment on the 2010 results. Afterwards, management will be available for a question-and-answer session. It is now my pleasure to turn the call over to Mr. Roberto Setubal. Mr. Roberto Setubal?

Roberto Setubal {BIO 1525746 <GO>}

Thank you. Good morning for -- and good afternoon for all of you, it is a pleasure to be here with you. And I have this presentation that is probably you are following in the Internet as describe it. I will try to go quickly through the presentation and because I am sure that you probably have seen the numbers and we can concentrate more time in the discussion with questions and answers.

The results in the Third Quarter -- in the Fourth Quarter were BRL3.4 billion delivering an ROE of 23% and for the year total number of net income was BRL13.3 billion delivering an ROE for the year and bottom line of 24.1%. The loan portfolio grew 20.5% including individuals, companies and our foreign operations. And if we include private bonds from our clients we have a growth of 21.5%.

In terms of revenue our financial margin for the year grew 9.4% having had a growth of 6.5% in the last quarter. And also the banking service revenue has increased by 15.1% for the year. So when you combine financial margins and banking services we have a growth of more than 11% for the year against 2010 -- no 2009. In terms of delinquency, our NPL 90 days decreased from the high levels at the end of last year. And now we have reached 4.2% at this moment.

In terms of the allowance for reasons for loan losses we have decreased the amount then during this year by 17% showing the improvement in the overall environment for loans.

In terms of expenses we have grown 8.2% in the last quarter. This was not a nice number, we were not at all happy with this number. For the year we had a 10% growth against 2009 and I will make some other comments on the expenses from this presentation. In terms of total funds and managed assets we have reached the remarkable number of BRL1 trillion.

And we have also reversed some provisions BRL1.6 billion provisions and I think the better explanation of this would be seen on page 5, we have reversed -- we have in our balance sheet BRL6 billion of provisions in addition to the minimum level of the central bank.

These provisions were made based on expected loss and countercycles expected provisions for countercycle situations. Given the fact that (Basel III) has defined that the countercyclical provisions will be part of the capital cushion, we moved the countercyclical part of our provision so that we would have it in our capital base. So the remaining BRL4.5 billion that we have in our balance sheet is in line with the most -- with the expected loss concept.

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But it's in line with a very conservative level of expected loss which is the one that is already in exposure drafts that was issued this year by the IASB and the FASB both together trying to align the concept of provisions which has always been very, very polemic. They issued to -- both institutes issued drafts trying to align the policies that the different accounting boards in the past have different policies; they are trying to align both policies so that we will have one policy for provisions all around the world.

And this draft includes additional provisions for expected losses that were not included in the previous concepts. And the number of BRL4.5 billion that we have in our balance sheet is in line with this more -- this very new and more conservative concept that is described in this draft.

So this was part of a non-recurring event in the last quarter together with some additional fiscal contingencies that we moved from the status of possible into probable and we did provisions on those (debts).

Following the presentation, we have numbers of revenues, loan losses, non-interest expenses. And net income that I have already described. And I'm sure that you have already seen them. So I will move to screen 7 when we have some ratios. We have the net interest margin which has been a little bit higher -- it was a little bit higher than the previous quarter and year-to-year we had an important increase.

Efficiency ratio was in the last quarter one of the worst numbers we have in our historical series was a bad number and we had a lot of one-timers expenses but we're not happy with those numbers and I will talk somehow -- some more of that in my presentation.

ROE improved in the last quarter even though we had these additional expenses that I described before. And our earnings per share have kept this trend of growth that we have shown here in this graph.

Going ahead, we have assets, shareholders' equity. And loan portfolio growing in a very sustainable pace, you -- that our shareholders' equity has grown in the same pace as our loan portfolios. So this shows our capability of finance our own growth by internal generation of capital.

On the following page we have our P&L with numbers that basically we have already shown. So basically I don't think that we should spend any time here.

In terms of loan growth on page 10, we have our growth of 20% split in segments and products. You can see that two segments are over growing, the others are the small and medium market companies and mortgage loans. Now those two segments very active and I believe that they will be -- we will be growing -- outgrowing the other segments for the year of 2011.

On page 11, we can see our ratios on credit and allowances. We can see that the current level of NPL 90 days for individuals is lower than the one that we had before the crisis.

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This is not true for companies and the reason for that is that the mix of companies that we have today is very much different than the one we had before. Today, we have much more small and medium size companies than we had in our mix in September 2008. And this delivers -- is slightly higher level of overall NPL compared to the September 2008.

The reversal, as I explained it, reversal of the allowances for loan losses we decreased our ratio and also the additional allowances that we have in our balance sheet compared to the minimum that the central bank requires.

And going on we can see that the credit provisions has been very stable in the last five quarters, around BRL4 billion even though we have grown our portfolio in the rate of 20% as I have shown before. So this shows improvement in the overall quality of our portfolio as the NPL shows.

Going ahead, we have the increase in our funding and assets under management resources which have achieved the BRL1 trillion. I would like to show that we have drawn our funding from clients on a 22% basis. So pretty much in line with our -- growing our loan portfolio. And banking services revenue has been growing very sustainably during the year in a 15% growth overall. Very well divided spread on those different types of services and most of this growth has to do with growth on volumes.

On August, we have revenues from investment banking which was a very strong year, the 2010 year was a strong year so this has to do with this higher number here.

In terms of non-interest expenses on page 15 we have this number of 10% growth as I have shown before, which was higher than we expected and we have some breakdown of this number taking out Redecard which has a growth of 22% related to expenses that they have done given the new situation in that market, they have a new sales force which was not in place before. This explains the increase in Redecard.

Porto Seguro is a new -- we did not have this at the beginning of 2009 so we're something that have a different impact in 2010 we have our expansions of new points of sale and the expansions related to that and the migration that we have in our financial network as we describe it along the year. So we have finalized the 1000 branch migration from Unibanco platform to our Itau platform so this cost us a lot of money but this was fully done on an expenses basis in 2010.

But -- and all this together shows that after all these adjustments our expenses would have been growing at 3.3% level. Which already shows a lot of synergies in those numbers although this was above the number that we had in mind. When we started the year, we had in mind for this line here that shows 3.3%, we had in line something between 0% and 2%; so it was above our expectations.

But just to be more fair with the numbers, we have also a consumption of provisions that we had before in terms -- when we announced the merger between Itau and Unibanco we made a restructuring provision and we have reversed this among the two years. We don't have anything on that in our balance sheet anymore so -- and this 2011 year will be an year

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that will be following a more running great number so when we reverse those provisions just to compare numbers -in a running rate version we have a 4.5% growth in this level.

We are not happy. So we now think a goal for the bank -- you can see this in page 16 that we have by the end of the year 2013, we expect to have an efficiency ratio of 41%. So a major improvement from the situation that we have today, we believe that this is something possible.

We don't have our (hope-net) for everything that we have to do with the guests into this number. But we have numbers -- we have plans to improve efficiency for the year of 2011, some things for 2010. And we can discuss this more during the Q-and-A if you like. But we will have to make additional efforts in order to get to those -- into this 41% level at the end of 2013.

On the slide 17, we can see the -- how our -- for instance in -- risk expenses are in proportion of our revenues -- our net revenues. The expenses is the orange color represents 51% and the last quarter of the year represented 51.7% for the full year 48.8%. This is a higher number than the year before; as I explained we are not happy about that.

We believe that we can prove. But when we see the expenses that we have with loan losses and also with insurance losses we can see an improvement of this number and have been reducing from a level of 25% -- 29% on the peak in the Third Quarter of 2009, now this represents only 19% of our net revenue.

So this -- all this combined have improved our income before tax and profit sharing to 29.2% for the Fourth Quarter even though we had this major level of expenses as I described before. So for the year 2010, we have a full year of 29% of income before tax as a percentage of our total revenue.

On page 18, we can see our BIS ratio, it is very stable during the year although we have this growth in assets of 20%. We have been able to generate internal capital in order to keep the level of BIS ratio.

On slide 19, we have a breakdown in major groups of our businesses. In Commercial Bank, we have our branches and small business in medium market. In Itau BBA, we have basically corporate investment bank businesses. And Consumer Credit, we have credit cards and auto finance. Businesses are performing well. Overall they are improving when you compare year by year. And those are in the notes.

On page 20, we have a breakdown of our income composition by business. And we have insurance breakdown in the bottom of the page; you can see the technical result. Those are numbers that are available from SUSEP, which is the insurance regulator in Brazil.

You can see all those numbers including the market earnings, revenue premiums which here we put on the line of earnings and the claims and the selling expenses. Those are public numbers and we have compared our numbers for our market.

This does not include health insurance, which is regulated by another agency in Brazil. So when we -- and this is another where we -- the segment of health insurance that we are not in, we basically have a business which is part of the past that is just reducing year-by-year.

So when we compare our position in that market we can see that we have a 20% share. If we add Porto Seguro with Itau Unibanco we will have the technical result number at 20% market participation. So it's a strong position if we don't have the health insurance business included. On the revenue side, if we include Porto Seguro our share would come from 15% to 25% more or less, as a market penetration.

On page 21, we have a breakdown of the business that we are in. We have in terms of earning -- earned premium, we are second in individuals, first in large and small risks for companies. We are number one in extended warranty. And we are -- Porto Seguro is the leader in association with us in the market of automobile and also in terms of homeowner insurance.

We are second in pension plan and third in capitalization. And as I described, in terms of health insurance, we are on the seventh position. We are out of the market. We are basically running off the portfolios we have in our books, both a strong position especially when we do not -- very strong in insurance especially if we do not include health insurance.

Our market capitalization have achieved BRL180 billion, very close to 100 -- around \$100 billion, which is basically the current level. On page 23, we have the guidance that we have announced at the beginning of the year for you. And we have basically achieved all revenue guidance and growth levels that we have announced and we have been above those levels.

But we have not really been in line with the guidance that we have give you for revenue -- for expenses. But as we have announced, we have now put this in priority. After we have finished the integration we are now looking to improve the banking operation. We are announcing this new goal for -- at the end of 2014 -- and '13 of 41% efficiency ratio.

In line with this, we are announcing in the page 24 the item five, 250 basis points improvement in the efficiency ratio, already in 2011. Although we have finished the migration from a client point of view, we have a lot of things to do in-house in terms of back offices and (EPGs) that can give us additional synergies gains during the year that will be full in 2012.

In terms of credit growth, we are guiding 16% to 20% slightly increase a possible slight increase in NPL levels. We are starting a cycle of increasing interest rates in Brazil. And in the past, every time that we had cycle of increased interest rates given the fact that the increasing interest rates aim to decrease the activity of the economy we have a slight increase in our NPL levels. This is the history and this is what we are expecting for 2011.

I have to be clear that for the time being we don't have any sign of that so far. We expect to show maybe some signs maybe in the Second Quarter or Third Quarter.

Banking services growth was in the level of 14% to 16% this is what we expect. And non-interest expenses growing 10% and -- between 10% and 13%. Those are the things that we like very much to hear your questions and I'm hoping for that. Thank you.

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Questions And Answers

Operator

Thank you. Ladies and gentlemen. we will now begin the question-and-answer session. (Operator Instructions) Jorg Friedemann, Merrill Lynch.

Q - Jorg Friedemann {BIO 15405752 <GO>}

My first question is related to the contribution that came from treasury in this quarter. I know that that's -- it was significant acceleration versus the prior quarters. Again, given that we are starting a new monetary cycle, I just like to understand if this also could contribute going forward for you to maintain this contribution at this levels of about BRL1.2 billion. Then I will go to my second question. Thank you.

A - Roberto Setubal {BIO 1525746 <GO>}

Jorg, I think this is something that we cannot really assure that -- market revenue is always market revenue, there is no -- we cannot predict that. So I will not count on this level of 1.2 as a stable level for the coming quarters. The quarter was good. The Third Quarter was bad compared to the year. You can see that we had a -- for the year BRL4 billion -- for the year of 2010 we had BRL4 billion. So the Fourth Quarter was a little bit above and the Third Quarter was a little bit below. So this fluctuates and depending on market conditions. And our (ALM) impact the level of interest rate.

Q - Jorg Friedemann {BIO 15405752 <GO>}

Okay, perfect and with regards -- I know again to your OpEx guidance, touch base on that in the Portuguese call. The OpEx growth expected for 2011 is more or less in line with other banks that already announced their guidances. But I note that also that on the revenue generation Itau has been a little bit more consistent in growing their net interest income closer to income lines and given that you're expecting sizable improvement in terms of efficiency going forward I'd like to know if you can talk a little a bit more about not the cost but the revenue synergies that you were able to recognize during the course of the prior year and also what you could foresee in the upcoming year as a contributor to the improvement in efficiency that you expect? Thank you.

A - Roberto Setubal {BIO 1525746 <GO>}

Jorg, we are not counting that much in synergies coming from revenue when we are announcing those numbers. We have basically, done the revenue integration or integrating the policy of pricing and everything in the very much beginning of the year of

2010. We have some marginal gains of some cross selling process that will be more possible now that we have one platform. But I don't think that this is something important in the overall growth that we are announcing. We are talking much more about natural or organic growth of revenue.

Q - Jorg Friedemann {BIO 15405752 <GO>}

Okay, perfect, thank you.

Operator

Daniel Abut, Citi.

Q - Daniel Abut {BIO 1505546 <GO>}

Good morning, Roberto, it's actually good to hear you kind of angry about the expense performance and to say several times that you are not happy with it. And to put some commitment to lower the efficiency ratio by 8percentage points in three years.

It sounds to me though that in that context. And if you expect about a third of that improvement already this year, 250 basis points improvement in the efficiency rates -- already 2011 that your guidance for expenses seems to be too conservative to me. But I haven't run the number but to get to that level of improvement with double digit growth in expenses seems to me to weigh too much on revenues. By the way, I think it would be pretty difficult because you said it yourself, the treasury gains which are borrowing your revenues and always difficult to predict.

So is there a chance that your performance in advances could actually be low or better than that 10% to 15% that you are guiding when that you have got to be conservative because of your experience in 2010. Otherwise, it is difficult for me to see the -- that level of improvement in efficiency this year without having running the numbers yet on revenues?

And the second question, Roberto, is on capital. There's a chart in page 18 where you show your core -- your tangible equity ratio as you call it being 11.1%, it seems that you have been doing work in anticipating Basel III rules already, hence the reversal of excess reserves that you have done already. How do you think that number for what you know already of the Basel rules and having published, that 11.1% number will look like once all the Basel III rules or most of them are applied, how much that number will be declining once all Basel III is applied.

A - Roberto Setubal {BIO 1525746 <GO>}

Hi Daniel, it's good to hear from you as well. Glad that you are joining us in this conference. Well in terms of efficiency ratio, you have to remember that expenses growth -- you have to remember that we have already -- last year we have increase in salaries of 7% in Brazil for banking sector. So this is -- and in Brazil also you have a lot of expenses that are index preflation, is still today part of the (past) and we had a very high level of inflation in the year 2010.

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Some inflations, some expenses like, for instance, energy, we are expecting given the indexation that we have double digit growth in terms of expenses. So this makes it a little bit difficult to have a much lower number than 10% because we have this almost 7% to 8% inflation altogether in our numbers.

But in addition to that we are opening 150 branches and we are still joining, merging, integrating (the costs). And we still have the data processing center of Unibanco which is still working. And we plan to shut down this year. So that there will be additional synergies for 2011. But every time that we have to do this kind of intervention, we have to spend more money in order to have the benefit down the road. So there's a timing issue here altogether that has to do with this level of expenses.

If you run the numbers you'll find that it's possible, it makes sense the numbers that we gave you. But depending on -- if revenues does not grow as much as we believe we would have to work more on revenues -- on expenses, you are right.

About our tangible common equity, we are very comfortable with the level we have today. Today, the most difficult thing for us to -- is the level of fiscal credit which deferred taxes as we say (inaudible), the deferred tax level is too high today for us. But if you compare to the level that we had last year, last year we had 53% at the start of the year before. When we announced the merger, we were at the level of 58%.

Last year, during 2009 we came down to 53%. This 2010 we are presenting 43%. So we are coming down very quickly and we believe that this won't be a problem by the time this will be binding in the Basel level. So overall, we do not anticipate any need of capital from market. We believe that the capital generation that we have from profits will be enough to finance our growth in Brazil.

So basically, this is our -- an area that we are working with. If growth of assets in Brazil is much higher than the one we are expecting, we might need maybe to retain more earnings so this would mean that we might need to reduce a little bit 30% level of distribution of dividends. Is that okay?

Q - Daniel Abut {BIO 1505546 <GO>}

That's very clear. Just a follow-up to the first then, in making that assumption that revenues will carry the weight in 2011 because of what you explain about expenses, in order to produce the 250 basis points improvement in efficiency ratio, what are you assuming for margin? It seems to me that the loan portfolio is going to grow 20%. And the top line has to grow very well -- probably above the income growth to get to your improvement in efficiency. What are you assuming for an interest margins overall for the year?

A - Roberto Setubal {BIO 1525746 <GO>}

Daniel, we're not really releasing a number for interest margin growth but given the scenario we do not anticipate overall reduction in spreads, scenario is not a one of spread reduction. The effect will be much more related to mix.

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Q - Daniel Abut {BIO 1505546 <GO>}

So you don't expect the same type of competitive pressures on the spread that you have seen in prior periods plus the mix should be in your favor because you are going to grow more (inaudible) than in other segments and the -- these are better spread.

A - Roberto Setubal {BIO 1525746 <GO>}

Yes. That's right, for many reasons. First reason is that we are in a interest rate increase cycle. So this must be really the time to decrease spreads. Second, we have a lower level of liquidity in the Brazilian banking system today. So although -- and we have this additional capital requirement that central bank has announced, in December, for some type of loans. So altogether this -- we do not anticipate a reduction in spread overall.

Operator

Jason Mollin, Goldman Sachs.

Q - Jason Mollin {BIO 1888181 <GO>}

My first -- well, I have two questions. My first is related to your outlook for credit growth for 2011 of 16%-20%. If you can give us a little color, you mentioned that credit growth currently is still strong and not really reflecting the recent prudential measures. If you think -- how that will impact -- how these measures that have already been announced or implemented will impact, or are impacting your expectations for growth in 2011. And maybe a sense of -- particularly the -- in the vehicles or auto segments given the regulations that were talked about?

And my second question is a bit of a follow-up on all of the questions related to expenses. You specifically mentioned that you expect to be closing the data processing center of Unibanco in 2011. What else can you point to specifically of where we can look for these cost synergies in 2011, or for that matter 2012 that resulted from the merger? Is it just that the migration and integration expenses will be a thing of the past or are there other areas that you can identify for us?

A - Roberto Setubal {BIO 1525746 <GO>}

Okay, on the -- let me start with the last question, about the expenses and efficiency ratio. Look we have -- we still have many improvements to do in our back offices. We have integrated our platform. But we still some areas that we can improve our efficiency by integrating the back office which are not fully done so far. We finalized the branches in -- October, end of October. And we finalize that our -- the integration of platforms of credit cards in November. So we did not really have the time to integrate all the back office things that we will be doing along this year.

Then we have the data center of Unibanco. We have already -- some brands, some projects that we have here inside that we are implementing that we will be helping to reduce some of the expenses that we have had. So we have small projects here. And improvement here and there. And improvements in the overall efficiency ratio given the

fact that we are not running any more these expenses -- big expenses of migrating the branches.

I have to remember that although we do not have numbers of migration that we had last year, we will have -- we are planning to reshape, refurbish six further branches in order to put those new branches at the same level. And the same quality, the same design that the ones we have put Unibanco's branches that came into our network. So we will be having additional much less than the migration expenses. But a few important expenses related to this refurbishment of the branches. So altogether those are the pictures.

Q - Jason Mollin {BIO 1888181 <GO>}

Any more comments on the credit growth environment and expectations by segment?

A - Roberto Setubal {BIO 1525746 <GO>}

That's right, I forgot about that. We -- so far, we have not seen signs of -- important signs of reduction in credit expansion, we basically have seen some impact given the measures that central bank announced in December, especially in automobiles, vehicles. And payroll loans. Those segments were affected. But basically those two segments, other segments are still in the same level of activity that they were at before.

We believe that at the beginning of the year we won't see that much impact in other lines -- only on those two lines. But as the economy reduces activity we might see some reduction in other sectors as well.

Operator

Jon Prigoff, Equinox.

Q - Jon Prigoff {BIO 19746183 <GO>}

I wanted to ask a more general question. Which is -- I'm not sure if you guys saw the article on the Financial Times a couple of days ago, talking about Brazilian credit growth. And specifically that for consumers. And I'm wondering if you had any comments on this? And in the article, they make the claim that debt service for consumers is 24% of disposable income, which is much higher than it was in the US during the sub-prime crisis. So we know that real interest rates have been high in Brazil for a long time. And it seems like in the past people were just less inclined to borrow on that basis, whereas over the past few years we've all participated in this huge credit growth.

I'm wondering if you had comments on why that is. And are you worried at all about some of the things that might be mentioned in this article.

A - Roberto Setubal {BIO 1525746 <GO>}

Okay, I have heard of the article. We are not really worried about that article. We don't think that this is at all true. The numbers that are there, I did not have a chance to go

deeply on those numbers. But we are going. And I think the numbers are in a different concept than in the usual way to look at this kind of situation.

So the real numbers, in a comparable situation is much lower than the one the article shows. But having said that, I have to say that in Brazil you have few segments that are still very much under leverage mortgage, for instance is -- represents below 5% of GDP. And many other markets, most mature markets have numbers of 30% of GDP. Small companies are still a number low compared to other markets. But I would agree that, in general, the potential growth in Brazil for consumer credit other than mortgages are much lower than in other segments.

Q - Jon Prigoff {BIO 19746183 <GO>}

Okay. And just -- I may need to follow-up, why -- rates have been high in Brazil for a long time. And that seemed to at times discourage people from borrowing too much. But why over the past few years has that mentality changed? People are now willing to pay what are pretty high real spreads to borrow, whereas a few years ago they weren't?

A - Roberto Setubal {BIO 1525746 <GO>}

We could spend hours discussing that. And this is a big discussion in Brazil. But trying to be short, given the circumstances, there's a lot of reasons for that. And the reasons are very much related to the Brazilian market conditions. We have an open market, any foreign bank can come into Brazil and (dispute) this market.

So it's not because we don't have more efficient banks or anything like that. But the reasons basically there are very high levels reserve requirements, very high level of taxes on financial intermediation, some lack of records of clients available for credit, instability of our economy in many ways. So all these together put very costly -- losses are much higher in Brazil.

In addition to that we have much lower tickets than you can observe in other markets. In Brazil, you can go into a branch and raise a \$100 loan, which probably won't be the case in the US. So these -- but the cost of processing one \$100 loan is basically the same as processing a \$10,000-loan. But the cost has to be absorbed in a much smaller loan but the spreads have to be much higher.

So there's a lot of things that we can say. But the important thing is that, in Brazil rates and spreads are decreasing over time. If you look back from the '90s the level of spreads. And the level of interest rates has been declining in a very consistent way. Even though we have some small oscillation we -- we still have 2 year trends of decline on the interest rates and spreads.

Operator

Marcelo Telles, Credit Suisse.

Q - Marcelo Telles {BIO 3560829 <GO>}

I have two questions. Regarding your efficiency guidance of 41% by the end of 2013. Can you give us a sense of what sort of return on equity you'd expect or think that Itau would be able to get to -- take into account this efficiency level?

And my other question is regarding the management changes that took place last week, I was wondering if you could give us some color on what are the strategic reasons or what were the main motivation behind those changes, not only at Itau but also the change in the management of Redecard? Thank you.

A - Roberto Setubal {BIO 1525746 <GO>}

Okay, Marcelo, well, we don't have a ROE number to give you. But I don't think that the math is that difficult we can very easily find that the ROE has to improve if we reach really this level of efficiency ratio.

On the changes on the bank we have announced a change in the head of our individual banking unity. We have basically finished the integration of the two banks as I mentioned. And now, we are looking into a different a completely different kind of job. And I believe that looking ahead, the kind of individual banking service must be -- we will have to deliver over time, will be quite different from the one that we had 5 or 10 years ago. And the reason for that basically two, one is the change in the social profile in Brazil. As you know, a lot of people are coming from very low ranks of society into consumer levels and those are using financial services.

And the second reason is the technology available that we have today, smartphones and iPad things like that. In my vision -- in our vision we'll change completely the way we bank with clients

We believe that given those circumstances we have to have a completely different approach and we saw that will be a good change ahead of people -- the heads of those units in order to discuss in a different, much more open environment this kind of change.

In the Redecard case we usually don't talk about Redecard we -- I would ask you to call Redecard people to comment on that.

Operator

(Alexandre Sabina, RXZ Investment).

Q - Alexandre Sabina

Roberto, I would like to know if you have any key executive in charge for the efficiency of projects because this was stated in your (inaudible) target of 41% and if you could say for us some background experience if that is the case?

A - Roberto Setubal {BIO 1525746 <GO>}

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Well first we have to say that this is an overall target for the bank. And we have announced that this will impact the pool of bonuses of everybody. So everybody will be affected for the level of efficiency ratio that we achieve. So everybody has to be on board for that. We believe that it's quite important to have the full organization on board in a project like this one. So this will be affecting everybody's remuneration.

We do have a person that is in charge of coordinating the efforts or organizing the numbers. But he's not really the one responsible for doing the job because the job has to be done in all the areas of the bank. Much more being like provocative, much more incentivating and pulling the numbers together, bringing the numbers altogether for the bank, establishing plans for those things. But the responsibility will be spread out on the organization in terms of everybody has to be committed to the goal and it is the work that we are doing right now.

Q - Alexandre Sabina

Then could say who's the person who's -- who'll coordinate this, I understand -- I fully understand that the whole bank will have to be enrolling in this new target but if you could say the name of the person in charge and --

A - Roberto Setubal {BIO 1525746 <GO>}

Yes, I can tell you the -- as Member of the Board, it's Marcos Lisboa.

Q - Alexandre Sabina

Oh, great, great.

A - Roberto Setubal {BIO 1525746 <GO>}

This area is the one who's coordinating this effort through the --

Q - Alexandre Sabina

Thank you. So much. And I have a second question, Roberto. And regarding the last maybe two years after the crisis, the speech of the bank has been that it will maintain its nominal provision. And as soon -- as the loan grow, it will dilute the -- your cover duration. So that is -- that was the speech in the last two years. And as well the background in the last two years that the loans were really -- they have like a very strong growth but right now this would be macro prudential measures. Do you believe that you have any space to revert this provision as the loan grows it will decelerate?

A - Roberto Setubal {BIO 1525746 <GO>}

If -- no, look. If you're talking about the BRL4.5 billion that we have in provisions in addition to the level that the central bank requires we basically the policy that we are now seeing from now on is that we will be following what Basel and IFRS will be announcing.

So we will over -- along this year when the final definitions of Basel propositions and IFRS comes on we will have the same level provisions in the IFRS and the Brazilian GAAP. The

levels of BRL4.5 billion that we have today in our balance sheet accounts for this including the new discussion that is in place now on as I mentioned in the presentation for new things to be taken into account as the expected losses.

Operator

Eduardo Nishio, BTG Pactual

Q - Eduardo Nishio {BIO 15333200 <GO>}

I have a question on your expectations for 2011. You mentioned that credit growth you expect to grow at between 16%, 20% but at the same time a slight increase in NPLs. My question relates to what will be your expectations for your NII after provisions for 2011 compared with 2010? Do you think we can have the same pace of growth as credit 16%-20%? Thank you.

A - Roberto Setubal {BIO 1525746 <GO>}

Look Eduardo, we are not announcing a number for growth and margins this year. But basically, as I mentioned before, we are not expecting reduction in the spreads from the line. The changes that we will see in the new ratio would be much more related to change in mix than in spreads.

Q - Eduardo Nishio {BIO 15333200 <GO>}

Okay, perfect, thank you.

Operator

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

A - Roberto Setubal {BIO 1525746 <GO>}

Okay. Thank you all for being with us this morning. I'm very glad to have the chance to talk to all of you. We are very proud with the work we have done these last two years in terms of integration. And we are very happy about the point that we are in time and looking forward to be more active in the market place putting our energy for the -- in favor of the clients not so much in favor of integration and things like that that are very complex and very difficult. So the Company overall it's very motivated to increase revenues and to perform better than in the past. Thank you, all, see you next time.

Operator

That just concludes our Itau Unibanco Holding earnings conference call for today. Thank you very much for your participation and have a good afternoon.

FINAL

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