

## Q2 2009 Earnings Call

### Company Participants

- Alberto Fernandes, VP of Itau BBA
- Alfredo Setubal, IR Officer
- Daniela Ueda, Financial IR
- Sergio Werlang, Executive VP of Risk Control and Finance
- Silvio de Carvalho, CFO

### Other Participants

- Daniel Abut, Analyst
- Eduardo Nishio, Analyst
- Jason Mollin, Analyst
- Jorge Kuri, Analyst
- Marcelo Telles, Analyst
- Mario Pierry, Analyst
- Michael Kass, Analyst
- Saul Martinez, 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 FIRB, Financial Investor Relations, Brazil. Please go ahead.

#### Daniela Ueda

Good morning. Welcome to Itau Unibanco Holding conference call to discuss the Second Quarter 2009 earnings.

I would like to remind you that this conference call is being broadcast live on [www.itauunibanco.ir.com](http://www.itauunibanco.ir.com). A slide presentation is also available on that 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 Second 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 Setubal** {BIO 1528623 <GO>}

Good morning, for all in the US. Good afternoon for those who are in Europe, for who are following through the Internet, we're starting with slide number two, highlights of this Second Quarter results.

The first one is the earnings; recurring earnings of BRL2,429 million with a decrease of 5.2% when we compare to the First Quarter of this year. And this means ROE of 21.1% in annualized.

The second highlight is related to extraordinary items. We have positive extraordinary gain this quarter of BRL142 million, mainly related to the sale of shares of Visa International and Visanet here in Brazil that provide this net positive result.

The third one is related to the additional provision. You remember that at the end of 2008 we made huge additional provisions for credit loan -- for credit losses to -- because we expected at that time an increase in the deterioration of the credit portfolio.

As we did in the First Quarter of this year, we used part of the additional provision that we made, and this quarter we used BRL775 million of this additional provision to complement the normal provision that we made in the quarter.

At the end of the Second Quarter, the additional provision balance was almost BRL6,500 million, what give us a very good comfort to face the losses of credit for the coming quarters if necessary.

The fourth highlight is related to NPL, and past-due of 90 days. NPL ratio finished in 6.7% when we are talking about 60 days, and when we are talking about 90 days, the ratio reaches 5.4%.

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We said in the previous conference calls related to the end of 2008 and the First Quarter of 2009 that these numbers would increase, and that's what happened in the Second Quarter and the First Quarter of this year. So -- and that's the reason we made the additional provision at the end of 2008.

Our expectation is that the deterioration of our credit portfolio, we will achieve the peak in this quarter, the Third Quarter, as we expect the economy to start to get better shape, and also because we have been more restricted in terms of credit in the last quarter.

So we expected, as I said, to achieve around 7% of NPL by the end of the Third Quarter and probably this will be the peak in terms of deterioration.

The fifth highlight is related to our BIS ratio that finished at 16.5%, the same level of the First Quarter of this year, and Tier 1 reached 13.2%.

Going to the slide number three, we can see here that the total assets decreased 4.5%. Part of this is related to loans that also decreased 2.5% achieving BRL265 billion.

This also related to the valuation of the real against the dollar and because of less demand for credits related to large companies.

The stockholders' equity finished BRL47.2 billion with an increase of 5% when we compare to the First Quarter of this year.

On page four, we can see the difference between the recurring result and the result that we published. The difference is related to recurring -- non-recurring effect of total of BRL142 million.

As I said, the main reason was the -- because we sold shares of Visa and Visanet that gave us a gain of BRL212 million, and also because we made provisions for claims from our clients related to saving accounts related to the economic plans that we had in the past that have some discussion about that, and we made BRL54 million in provisions for individual claim.

So that explains -- with also a small goodwill amortization still related to the increase of participation that we have -- that we did in the First Quarter in Redecard when Itau Unibanco achieved the majority of the voting shares of the Company.

On page five, we can see more details about our results. I think it is important to see that the net -- the managerial margin remained stable when we compare the First Quarter to the Second Quarter.

The margin with clients also remained stable, BRL9.3 billion, and also the financial margin with the markets also with an increase of 1.2%, BRL1.2 billion in this period.

Banking fees was a good level of revenues, an increase of 2.6% in the quarter, achieving BRL3.6 billion. The result from our insurance companies, a decrease of 5.3%, achieving BRL1.3 billion at the end.

So the managerial financial margin, and -- including the banking fees and services, BRL15.7 billion almost stable when we compare to the First Quarter.

The bad news came as expected from the loan losses, when we achieved BRL4.5 billion, with a increase of 15% when we compare to the First Quarter of 2009, and also we, as I said, had to use part of our additional provisions for credit in the level of BRL775 million when we compare with BRL539 million we used in the First Quarter.

So as I said we continue to see a deterioration in our credit portfolio move because of delinquency, and also because we continued to make changes in rating especially for large companies and when we change the rate for (worse), of course we need more provision.

The recurrent net income so -- before that non-interest expenses, also stable when we compare to First Quarter in BRL6.4 billion. So recurrent results BRL2.4 billion, non-recurrent effects, as I mentioned BRL142 million and net income of BRL2.5 billion with an increase when we compare to the First Quarter of this year.

Going to slide number six, we can see more details about the loan portfolio by customer. The total of the portfolio is BRL266 billion with a decrease of 2.5% in the quarter, and we continued to focus more in individuals. We can see that individuals' portfolio increased 2.2%.

We continued to focus on vehicles -- continued to be a very important part of our portfolio. More than 50% of our individual portfolio is related to car finance.

When we look in terms of business in terms of companies, we see a decrease of 4.5%. If we go in more details looking in the line of corporate, we see 9.5% in decrease in the credit portfolio related both for -- because of the valuation of the real in the loans dollar-related, and also because less demand for credits for companies in this segment, in the quarter.

We continued to increase our portfolio when we talk about the small and medium-sized, micro companies. We increased this portfolio to 5.3% in the quarter achieving BRL54 billion.

Mortgage continued to increase. At the end of the quarter, the total in terms of mortgage BRL7.1 billion, with an increase of 7.6%, is small, but is growing as we can see in the next page in slide number seven.

We can see Real Estate Credit continued to increase in the pace less than when we compare to last year, but we continued to see demand both from individuals with an

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increase in the quarter of BRL500 million, and also from the developers that we (can see) credit of BRL700 million in this quarter.

It is a segment that we believe that will continue to grow in the coming quarters in the coming years.

On slide number eight, you can see the NPL ratio related to 60 days. We can see that individuals continue to increase delinquency, achieving 10% in the quarter. Companies increased 3.9%, also related to the change of rating, and the average of the total portfolio 6.7%.

When we see the NPL ratio related to over 90 days, we see better numbers. The total is 5.4%, individuals 8.1%, and companies 3.1%. We continued to have a very good coverage ratio mainly because of the provisions that we made at the end of 2008 to face the delinquency this year.

On page nine, we can see more details about our provision for loan losses. We can see that in the Second Quarter we achieved a BRL5 billion in terms of provisions including in this number BRL775 million that we used from the provisions already made in 2008.

In terms of Funding and Managed Resources, we finished the total client money with us both in terms of deposits and funds and reserve -- technical reserves BRL638 billion, with an increase in the quarter of 3.6% which is a very good number, and shows our capacity to have deposit money from clients.

On page 11, we can see that we reduced the level of cash of the Bank because of the lower level of demand for credit, and also because a little better environment in the economy, and that's the reason because credit now represents 87% of our deposits when we compare to 85% in the end of March.

On slide 12, we see more details about the growth in the quarter when we talk about Banking Fees and Banking Charge, a increase of 2.6% and we believe this will continue to increase as the economy gets better and companies and individuals use more the Bank than in the last quarters.

Good news also on slide number 13, and when we talk about non-interest expenses, we see the level of the Second Quarter stable when we compare to the First Quarter of this year, and of course have a lot of synergies to come in the coming quarters when as long we increase the merge with Itau and Unibanco.

On page 14, we see the efficiency ratio 44.8% in the quarter, a little better when we compare to 45.1%, and in 12 month at 47.4%. We continue to believe that we go in the direction in the coming quarters of a much better level around 42% -- 40% in the coming quarters.

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Segmentation on slide 16; the four big segments that we analyze and we release for the market, Commercial bank, Itau BBA, Consumer Credit, and Corporation + Treasury.

When we go to slide 16, we see this managerial numbers -- pro forma numbers. We split the recurrent net income of BRL2.4 billion in these four segments, and we can see that the Commercial Bank has a recurrent net income of BRL916 million.

We allocate capital related to the total assets of BRL452 million of BRL19.1 billion remembering that our stockholders' equity is BRL47 billion, so almost 40% -- more than 40% is allocated to the Commercial Bank and these give us a RAROC return of 19.3% in the quarter.

The same analysis to Itau BBA, BRL443 million in net income, allocated capital -- capital BRL10.6 billion, a RAROC of 15.2% -- (sic; see Press Release) related to the total assets of BRL175 billion.

Consumer Credit, BRL545 million in terms of net recurring income -- (technical difficulty).

## Operator

Ladies and Gentlemen, please hold. Mr. Setubal, you may proceed.

## Alfredo Setubal {BIO 1528623 <GO>}

Sorry for the technical problem. We are back here with the -- onto slide 16, that I thought was -- where I was when the problem happened. So the RAROC for the four segments; we see RAROC for the commercial bank 19.3%, Itau BBA 15.7%, Consumer Credit 28.9%, and Corporation 25.2%, also -- always remembering that this is -- pro forma is managerial numbers, so for these four segments that we traditionally release to the market.

On page 17, we have the same numbers, the same view. We can see this -- how these segments were splitted including also insurance in this graphic.

To finalize, for those who are in Brazil, we will be in Brazil next week. We have our traditional meeting with investors and shareholders here in Sao Paulo on Wednesday 19th at 2 p.m.

These will be broadcasted through our website for those who want or are able to follow our presentation in Portuguese. This presentation will be made in Portuguese, and it will be released through the Internet for those who want to follow the presentation that we are going to make for investors and shareholders here in Sao Paulo.

Thank you. And now we are open for the q-and-a part of this conference call.

## Questions And Answers

## Operator

Ladies and gentlemen. we will now begin the question-and-answer session. (Operator Instructions)

Our first question comes from Mr. Jorge Kuri with Morgan Stanley.

### Q - Jorge Kuri {BIO 3937764 <GO>}

Hi. Good morning, everyone. I have two questions. The first one is can you give us some color on the deterioration in asset quality as -- you mentioned there were things at play here.

One is normal deterioration of the book due to the economic environment and the second is the change in the risk or risk assessment that you're doing to -- part of the portfolio.

So on the portion that is the actual deterioration, what is driving -- is there a specific segment, maybe auto-loans or used car loans or SMEs or personal loans, I mean any color that you could provide us to understand what's driving these and especially why you think it's going to already peak this quarter?

Then for the second portion, the one that is due to the changing ratings, are you done with it? Is there more to come in the next quarter or basically that was it? So that's my first question, and I'll wait for you to answer and I'll ask you the second one.

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

In relation to the (dividends), under the SME, the problem happened across the board, so we don't have a specific segment that appears at the deterioration.

This is according to what we announced before, when we made the last conference we mentioned that probably we would have a deterioration in the credit quality. That's the reason because we made the provisions in the end of last year and the -- our vision and our models show us that the NPL will increase, probably we will have to make more provision.

And this happened, and we have seen a continuation of this situation until September. But let me give you more details.

First, this deterioration happened with the older loans, before -- the loans that were granted before the crisis. When the crisis started last September, we became much more selective and we become more cautious. Then when they was look at these (inaudible) it's very clear for us that it's much better than the situation that we had before.

That's the main thing that is including this scenario. I will transfer to Mr. Alberto Fernandes to talk about the corporate loans to give you more detail.

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### **A - Alberto Fernandes** {BIO 19187632 <GO>}

Jorge, in the corporate side what we are seeing now, the first semester was the worst for us. We made a lot of downgrades because of the huge debt of the Company brought to 2009 from 2008.

We were not expecting, although it is very difficult to forecast what is going to happen with this sector specifically in the second semester of this year. But we were not expecting a huge loss or a huge downgrade in the third and the fourth Q of 2009.

I think it will be better quarter for us. The companies are improving, the economy are improving. Although we are -- if we are right in our forecast for the economy, for the cash flow of companies for the next semester, we will expecting a better shape for companies in these times.

### **Q - Jorge Kuri** {BIO 3937764 <GO>}

All right. Thank you. And the second question is related to the financial margin with market. Second quarter was BRL1.2 billion, same thing as the First Quarter BRL1.2 billion.

The run-rate in the previous quarter was around BRL500 million, and I'm assuming that that increase had to do with reduction in interest rate. So should we expect that number in the second half, and now that rates are basically flat, go back to around BRL500 million? Is that the right expectation?

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

Okay. Let me tell you our expectation with relation to the second half of the year that the -- probably the performance of the share -- the treasury (inaudible) the same.

Remember that in this figure we have the impact of the -- decrease in the interest rates that happened very fast, and the fact of the second point is related with the appreciation of the reais. We are not seeing this scenario for the next quarter.

### **Q - Jorge Kuri** {BIO 3937764 <GO>}

All right, but I just -- I agree. I just wanted to get -- project some quantification on it. If I just look at the financial margin with market, for example, in the first half of 2008 it was exactly half of what you delivered in the first half of 2009.

So I just want to understand if the run-rate which I've calculated for your business to be around BRL500 million per quarter, is that the right expectation for the second half of the year versus the BRL1.2 billion per quarter you did in the first half? Are those more or less the right numbers?

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

No. I understand, but what I compare that to -- our expectation that will come down. How much is very difficult to forecast. Treasury -- it's treasury. It's very difficult to have an idea.



**Q - Jorge Kuri** {BIO 3937764 <GO>}

All right. Thank you.

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

Thank you.

**Operator**

Excuse me. Our next question comes from Mr. Saul Martinez with JPMorgan.

**Q - Saul Martinez** {BIO 5811266 <GO>}

Hi. Good morning everybody. A couple of questions also on asset quality. Your reserve coverage of 60-day and more past-due loans, as you highlight I think on page eight of the presentation, has fallen pretty dramatically over the last -- not surprisingly over the last two quarters to about a 146%.

It's pretty close to what it has been historically prior to your big additional reserve increase in the Fourth Quarter. How -- at what level would you stop feeling comfortable allowing that reserve coverage fall to?

Would you allow it to fall to under 130% or 135%, because that may limit your ability to release reserve results -- reserve -- excess reserves into earnings?

The second question also on asset quality; are you seeing any improvement, for example, in early stage delinquencies? Obviously, your 60 and 90-day past-due loans have been going up, but as we've seen in the Central Bank data, 50 to 90-day past-due loans have actually been declining for the system as a whole, even as 90 or more days past-due loans have been increasing.

Are you seeing any improvements that make you optimistic in say earlier stage delinquency rates, say 15 to 60 days or 15 to 90 days that might make you feel more comfortable about the future evolution of your asset quality?

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

Saul, let me give some figures. And if you look at the ratios in the slide eight, then if you look the NPL over 90 days, you will see that with -- in the part of the individuals, it's possible to see a stabilization of the -- it's increased, but not very fast, as the past.

And this indicate us that we have improvement in the credit quality compared with the recent loans that were granted before the crisis. When you look the new -- (inaudible) that you didn't release yet, this show us that after the crisis, when we became much more selective, the credit quality is much better.

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And this give us confidence to us that to forecast that this probably the Third Quarter will be the peak when you look these ratios.

The coverage ratio that we have now about 146%, well, I suppose that can come down to 140% or even a little bit lower than that.

**Q - Saul Martinez** {BIO 5811266 <GO>}

Okay. But what -- I mean, the problem isn't with the retail loans right now. The problem is that you've seen huge deterioration in your corporate loan book, and especially in the SME loan book.

Are you seeing similar types of improvements in vintages, where even though I suspect are the real short-durations loans, but are you seeing signs of encouragement there in terms of earlier stage delinquencies, or new past-due loans that are starting to emerge?

Because that's really the question more than the retail side is what you are seeing in the corporate loans, both -- especially in the SME loan book. Why are you more optimistic there? What are you seeing that makes you more optimistic?

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

Let me tell you -- remember what the answer that Mr. Alberto Fernandes made in the last question is he mentioned that when you look at the corporate loans, we analyzed each one of the customers. It's not related with the (inaudible). It's much more related with the segment and the --

**Q - Saul Martinez** {BIO 5811266 <GO>}

Yes.

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

-- company that operates. It is part of the portfolio. We see very good sign of -- that the situation will be much better in the second half of the year. When you look SME it's more risk, no doubt, but it's similar to the individuals. And we expect --

**Q - Saul Martinez** {BIO 5811266 <GO>}

What --

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

Sorry, we are expecting that the GDP will grow much more in the second half of the year. It means that the current year will be much more active. It gave us some sign that the situation is much better.

I think it happened in all the Brazilian bank system. It's with the economy. It's not exactly this situation really -- we don't have a different portfolio profile.

**Q - Saul Martinez** {BIO 5811266 <GO>}

Okay, just one final really quick question on loan recoveries is as we head later into the year in 2010, given the asset quality issues, and the fact that a lot of your loans are collateralized, should we see a nice pickup in loan recoveries in -- later this year, into 2010 that can help bolster your -- help your net interest income going forward?

**A - Alberto Fernandes** {BIO 19187632 <GO>}

Saul, this is Alberto. For the corporate side, I think we will see probably a strong recovery, if I can say that in 2010. We see some recover --

**Q - Saul Martinez** {BIO 5811266 <GO>}

Yes.

**A - Alberto Fernandes** {BIO 19187632 <GO>}

-- very difficult to forecast for the third Q and the Fourth Quarter. But I think in 2010 it will be much better. This is our expectation at this time.

**Q - Saul Martinez** {BIO 5811266 <GO>}

Okay. Great, thank you very much.

**Operator**

Excuse me. Our next question comes from Mr. Daniel Abut with Citi.

**Q - Daniel Abut** {BIO 1505546 <GO>}

Good morning, gentlemen. If I understood Alfredo correctly when he was discussing page 14 of the presentation about efficiency ratio, he said that this ratio which is currently above 45%, it's been 45% in the last couple of quarters could reach the low 40s, 40% to 42% I think he said in coming quarters.

I assume if those numbers I understood correctly that that's where the main effect of the cost synergies from the merger will start to impact.

So if you could elaborate further on how the merger is progressing, what are the cost savings that have been identified, and in what area, and if you could be a bit more specific of by when we could see the efficiency ratio down to the low 40s?

Are we talking about already, later this year, are we talking about next year? If you could be a bit more precise on that?

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

We are talking much more about 2010. Remember that this year we are just started -- we started the beginning of the integration of the branches. It will take time and this will be

more present next year.

And to other point, that's in next September we'll have a new agreement with the union. This negotiation probably we will increase our personnel cost about -- related with the inflation probably.

**Q - Daniel Abut** {BIO 1505546 <GO>}

So you are saying that by 2010, we will see the efficiency ratio down somewhere in the 40% to 42% range?

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

Yes, more in the end of the year.

**Q - Daniel Abut** {BIO 1505546 <GO>}

Towards the end of the year?

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

Yes.

**Q - Daniel Abut** {BIO 1505546 <GO>}

Anything else that you want to comment on the progression of the merger? You are saying that the branch network will start to be integrated later this year. Any additional new development you want to comment on the progression of the integration?

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

Yes, let me give you more details about the integration. We just finished the integration among the operations with Itau BBA. There we had had before three treasuries; now we have one. The areas of the corporate investment bank, the -- Unibanco and Itau is totally integrated.

In terms of the retail, we will start a pilot test in this month, probably next week, with four branches, and we will study these integrations very, very deeply, while deploying all the different branches just to give an idea about the situation, and -- but the acceleration of the process of integration will happen next year.

**Q - Daniel Abut** {BIO 1505546 <GO>}

Thank you, Silvio. Quickly, a follow-up question on a different topic. I noted in your loan portfolio page, on page six of the presentation, a big contraction in the loan -- in the loan book outside of Brazil; Argentina, Chile, Uruguay, Paraguay down about 14%; was that something that you planned, that you wanted to see a contraction in your exposure outside of Brazil, and if that's the case, why? What is going on in your operations outside of Brazil?

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

Oh no, no problem. Just an accounting effect, but related with the currency, because the reais appreciate a lot during this -- the Second Quarter.

And when you convert this currency to the reais, it is -- it appear decreased the portfolio. But it's not -- it's happening with the big corporate loans as well.

We have BRL46 billion in loans to big corporates that are (indexed) in dollars.

**Q - Daniel Abut** {BIO 1505546 <GO>}

Yes. And in fact there's no problems abroad that has forced you to try to contract the portfolio?

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

No, no, you have to disclose in your MD&A about the balance sheet of these subsidiaries, and you can see there the details.

**Q - Daniel Abut** {BIO 1505546 <GO>}

Thank you, Silvio.

**Operator**

Excuse me, our next question comes from Mr. Eduardo Nishio with UBS.

**Q - Eduardo Nishio** {BIO 15333200 <GO>}

Good morning. Just a follow-up on this synergy efficiency ratio. The 2010 42% efficiency ratio is for the full year, or on the end of the quarter, on a quarterly basis?

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

Will happen more in the end of 2010 this level that is possible to achieve. It's -- it will happen quarterly by quarterly. We have now 45%, but probably will not decrease this level this year, but next year, probably will start to decrease.

**Q - Eduardo Nishio** {BIO 15333200 <GO>}

Okay, so it's a quarterly number, right?

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

Yes.

**Q - Eduardo Nishio** {BIO 15333200 <GO>}

Okay. And just one more question on savings. A lot has been said about interest rates coming down, you could have a jump in your savings account, and that's a question for

the sector.

And actually, you had an increase this quarter, but also you had an increase on -- in assets under management, right? So -- which was more than the savings account.

Where this is coming from, is that the time deposit that -- the money from time deposit migration to these two accounts? And what -- in your view, what will be the good solution for this issue in the midterm? Thank you.

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

We are seeing in the market movement that most of the banks reduced substantially the price they were paying for CDs and time deposits and so on.

So many clients, now are moving -- as the investment they made last year when interest rates were very high, they're moving now -- they're not renewing the deposits, the time deposits, and they are moving more to funds, especially in our case.

We reduced a lot the price for time deposits. So in our case, this movement is more, you can say, better. But it is in general, in the industry is happening. And also -- you have seen also some movements to saving deposits in June, July. The figures released by the Central Bank shows that more deposits and higher pace relates to saving accounts also.

**Q - Eduardo Nishio** {BIO 15333200 <GO>}

And in the future, the solution would be taxation in your view on both personal and saving accounts?

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

I think this tax problem gives some distortions in the economy of course, not only in the savings, but also in other financial instruments related to real estate that also has the same benefit. It is a problem -- potential problem that the government and Central Bank and the finance minister will have to address probably next year or 2011 to avoid a big distortion in terms of deposits for savings.

Because you remember that 65% of the savings deposit must go to real estate, to mortgage. And if the savings deposit increase very fast, it will be impossible to serve this Central Bank regulation.

**Q - Eduardo Nishio** {BIO 15333200 <GO>}

Okay. And on the assets under management, what funds did you -- saw increase, a large increase? Is it fixed income or (technical difficulty)?

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

Two more related to fixed income. But we see also lot of money, I think, if I'm not wrong, the figures of July for hedge funds were more than BRL14 billion, at hedge fund also

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invest in equities.

So indirectly money is going to the stock market through hedge funds. But in terms of equity, pure equity funds, we are seeing a lot of deposits, but a lot of withdraw, especially from people that are recovering from the losses during the worst months of the crisis. So probably we are going to see is our expectations more net positive inflows in equity funds in the second semester.

**Q - Eduardo Nishio** {BIO 15333200 <GO>}

Okay. Thank you.

## Operator

Excuse me, our next question comes from Mr. Mario Pierry with Deutsche Bank.

**Q - Mario Pierry** {BIO 1505554 <GO>}

Good morning, I have two questions. Just quickly, as a follow-up on the cost savings. I know the Bank has not quantified publicly how much you expect to achieve in cost savings, but just to give us an idea, what percentage of the cost savings do you expect to be achieved by 2010, and what percentage by 2011?

So should we -- the budget of 2011, already the full benefits of the entire cost savings being achieved, or will the bulk of that be achieved in 2010?

Second question is with regards to your net interest margin. Excluding trading gains or treasury gains, your margins have been quite resilient despite a lower interest rate environment. I wanted to get an idea of how do you see your margins, excluding treasury, behaving in 2010? Thank you.

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

In terms of cost saving, what I can tell you, Mario, that the plan that we talked about before, that our normal turnover of personnel is 10,000 people. If you look the figures that we released after the -- you see that we are in this direction.

And this -- it's according the plan that we announced. Recent here in Brazil, we made a special program to the (inaudible) people that is related with the people that is closer to the return. This plan, we are forecast -- some synergy that will happen is implemented already and it's happening this second. But if you -- it's more impact in the saving cost.

For 2010, we are forecast that in the end of 2010, 80% of the synergy cost will be implemented. The 100% will happen in 2011. In terms of net interest margin, before treasury, before market, just related with the customers, we are forecast that in 2010, this figure will probably increase to this -- this is the normal track of the Bank.

**Q - Mario Pierry** {BIO 1505554 <GO>}

Just to clarify that, when you say -- are you talking about net interest income growing double-digits, or is --

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

Net interest income before treasury.

**Q - Mario Pierry** {BIO 1505554 <GO>}

Right. But that -- that's with your expectations of loan growth, I think, you said before of 20% to 25%. So does that mean --?

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

For 2010, yes; the total of the year.

**Q - Mario Pierry** {BIO 1505554 <GO>}

Right. So what I was trying to understand is does your net interest income grow below the 20% to 25%, or does it grow in line with that 20% to 25%?

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

Probably will be lower down to 20%, because of the lower interest rates, the lower -- probably lower spread.

**Q - Mario Pierry** {BIO 1505554 <GO>}

Okay. Thanks, Silvio.

**Operator**

Ladies and gentlemen. our next question comes from Mr. Jorge Kuri with Morgan Stanley.

**Q - Jorge Kuri** {BIO 3937764 <GO>}

Thank you. My question has been answered, thanks.

**Operator**

Our next question comes from Mr. Jason Mollin with Goldman Sachs.

**Q - Jason Mollin** {BIO 1888181 <GO>}

Hello everyone. Since my questions on asset quality and costs were already asked, I'll take this opportunity to ask how Itau sees the progress in establishing a positive credit bureau in Brazil, when we could see that in fact be implemented, and how that might impact Itau Unibanco?



And secondly, on the regulatory front we continue to see more stories about, let's say, pressure -- potential pressure on banking fees or spreads. If you could give us an update if you see any regulatory changes that would impact your business?

**A - Sergio Werlang** {BIO 2384657 <GO>}

Hi, this is Sergio Werlang. So your first question was on the positive credit bureau, okay. The positive credit bureau -- the law that is now in the Congress is a law which is not good for the credit bureaus.

So unless there is a change in the law, or there is another project of law, the approval of this project is actually not very good in terms of increasing credit distinction between good and bad clients.

So what we expect in fact is that there is going to be some change in the project of law, which is in the Congress, and that will have a very positive impact both on spreads and on the increase in terms of credit over GDP according to our estimates.

According to our estimates, the Brazilian credit bureaus are very good, but there are still better benchmarks internationally. And it would be possible to have a law which would make us achieve the best quality credit bureaus in the world and this would have, as I said, both good impacts.

As for regulatory pressure we see it naturally, and we don't expect any major regulatory change apart from the ones that are already around. What we expect naturally, with the recovery of the economy is a (fall) spreads, which will naturally happen as the economy grows and credit quality improves, as I said, as a result of the macro situation of the country, which we forecast for next year very positively.

**Q - Jason Mollin** {BIO 1888181 <GO>}

Thank you.

**Operator**

Our next question comes from Mr. Marcelo Telles with CSFB.

**Q - Marcelo Telles** {BIO 3560829 <GO>}

Hi. Good morning, everyone. I have a question regarding your potential revenue synergies going forward. Can you comment a little bit which areas you think you could -- you will be able to extract some synergies on the revenue side, at least since we've been mainly focused -- focusing a lot on the cost side.

And my second question is regarding asset quality. And as you mentioned earlier, there were provisions that were done in relation to reclassification criteria.

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So I was wondering if you could tell us if there was any specific credit or any companies that represented an important amount of the amount of incremental provisions that were done in the quarter? Thank you.

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

The synergy avenues that we consider, it relates with the segment of SME that we implement the platform -- the new platform that was created after the acquisition of BankBoston.

And today we see very good opportunities to operate in the same level, or with the new customers in the new bank that's coming from Unibanco. And we have started working with them already.

The second possible synergy avenue is related with the segment of insurance. Insurance, we are adopting the model of bancassurance. Because of the partnership with AIG, Unibanco did have bought so much insurance through the branches.

They utilized more brokers. With the new bank we are utilizing much more other branches to sell insurance products. For example, pension plans; this is a very good opportunity for us, and we are -- this will appear when the -- we start the integration in terms of branches.

The second question I will transfer to Mr. Alberto Fernandes.

**A - Alberto Fernandes** {BIO 19187632 <GO>}

Marcelo, there is no specific sector in the Brazilian economy that we focus on -- review the ratings.

This is happening all over the economy as you know better than me. The crisis affected all sectors, all companies, and this is a general policy, as long as you see the whole balance sheet of all companies in all sectors have deteriorated in the first semesters of this year. So this is not any specific sector, this is spreaded all over the companies that we have.

**Q - Marcelo Telles** {BIO 3560829 <GO>}

Just a follow up on the same question. Do you have at least an idea of what was, let's say, the maximum, or the highest provision per client that you had in this quarter? What was their largest amount, over BRL200 million, BRL300 million? Just to have a sense, thank you.

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

Marcelo, I'm sorry, this is not (part) of disclosure that we do in our portfolio.

**Q - Marcelo Telles** {BIO 3560829 <GO>}

That's okay. Thank you very much.

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

Yes.

## Operator

Our next question comes from Mr. Michael Kass with Baron Capital.

**Q - Michael Kass** {BIO 15846818 <GO>}

Hi. Thanks. I just want to ask if you could comment on some of the -- if you have a regulatory environment surrounding the merchant acquiring and credit card issuers, how you see that playing out over the next six months that -- and then maybe a little further out over the next couple of years with increasing competition and new issuers, and some of the other banks that have not been participating looking like they're going to start entering the market? Thanks.

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

Let me talk about the credit card industry under this regulatory environment. What we have here is a big discussion about the exclusivity, about the ramp-up of the (POFs).

This is -- speaking many issues that they are discussing, if you -- probably, we will have just one POF that will be shared with the acquirers, that's the probable scenario that we have.

In relation to the exclusivity is other point that probably will be broken, this -- but it will not be implemented immediately. It'll take some more months to do that. That's the -- probably the main scenario that will happen.

**Q - Michael Kass** {BIO 15846818 <GO>}

Okay. Do you foresee any change in the relationship between issuers and merchant acquirers? I know that obviously the issuers have been selling down their equity interests in the acquirers.

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

No, no, this is the discussion today with the IPO of Visanet. This problem appeared again, and this is the discussion today. We don't have any other news about that.

**Q - Michael Kass** {BIO 15846818 <GO>}

Okay. Thanks a lot.

## Operator

This concludes today's question and answer session. Mr. Setubal, at this time you may proceed with your closing statement.

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

Thank you, all for your participation and the level of questions. We are still open. If you have more questions, our team Investor Relations are here to help you to understand better our numbers.

We think it is a good number for the quarter, especially when we consider the situation of the economy. We expect, as we said, the economy to be in better shape from this quarter and next -- in Fourth Quarter, and next year probably we will see a growth of more than 4%, which will give for the banking system a much better environment to grow and reduce delinquency. We see synergies coming from the merger, so we are very confident about the coming quarters for Itau Unibanco.

Thank you. And wish to come to see you and talk with you again for the Third Quarter at the beginning of November. Thank you.

## Operator

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

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