

Q2 2010 Earnings Call

Company Participants

- Alfredo Egydio Setubal, IR Officer
- Francisca Istella Saga, Financial IR, Brazil
- Rogerio Calderon, Corporate Controller and Head of IR
- Unidentified Speaker, Analyst

Other Participants

- Boris Molina, Analyst
- Daniel Abut, Analyst
- Federico Rey, Analyst
- Jason Mollin, Analyst
- Jon Prigoff, Analyst
- Marcelo Telles, Analyst
- Mario Pierry, Analyst
- Saul Martinez, Analyst

Presentation

Operator

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. Francisca Istella Saga [ph] of Financial Investor Relations, Brazil. Please go ahead.

Francisca Istella Saga

Good morning. Welcome to Itau Unibanco Holding conference call regarding 2010 Second Quarter earnings. This conference call is being broadcast live on www.italu-unibanco.com/ir. A slide presentation is also available on the 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 Ribeiro da Costa Werlang, Executive Vice President of Risk Control & Finance, Caio Ibrahim David, Chief Financial Officer, Rogerio Calderon, Corporate Controller and head of Investor Relations, Marco Antunes, Accounting Director, Gustavo Henrique Penha Tavares, Itau BBA director.

First, Mr. Alfredo Setubal will comment on the Second Quarter 2010 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. First, sorry for the delay. We had some technical problems in the previous teleconference in Portuguese; we had to interrupt for almost 10 minutes. That's the main factor that we started later this English conference call.

For those who are following through the slides, starting with slide number 2, the highlights. Net income is the first one. The recurrent net income for the quarter BRL3.3 billion. It means an increase of 4.1% from the First Quarter. And that means our ROE annualized at around 24.4%. In the first semester, if you consider the first semester, the recurring net income achieved at BRL6.5 billion and with a growth of 29.6% when we compare to the first semester of 2009.

The second highlight is financial margin with clients and the credit expansion that we showed. The growth of the margin was 6.7%, a total of BRL10 billion in this Second Quarter, especially because of the credit expansion, 4.4% sic; see Press Release [ph] in the period, in this quarter. And 11.4% when we compare to the first semester of 2009.

If we consider only the retail credit growth, this number is 18.8%. So we showed a very good margin with the clients in a very solid operation of the bank with the clients that I think is the most important thing. That is what give us a sustainability to our results.

The third highlight is banking fees and banking charges. A 4.4% growth when we compare it to the First Quarter, BRL4.3 billion in the period, mainly because of the credit card operations increase, in terms of volumes. Current account services also shows a growth. And investment banking also was a very active semester, active quarter for our Itau BBA investment banking operations.

The fourth highlight is delinquency rate and the results from loan losses. 90 days delinquency rate reduced 30 basis points in this period. And we finished with 4.6% in the quarter and we showed a reduction of 100 basis points during this year. We expected this number to remain relatively stable.

We don't see much gains anymore in the delinquency rate. And it shows some gain. But the most part of the gains already are reflected in these numbers. This is because, mainly because we have a different mix. We increased our portfolio, mainly with individuals and SMEs. And it's a more risky business. And we expected this delinquency ratio to remain around the same level that we are today.

Also in the first semester, our provision for loan losses, net of recovery of credits that is more active this year, was 15.8% less than when we compare to the same period of first semester of last year. We remain with the same level of additional provision of BRL6.1 billion in this quarter, when we compare to the other quarters, were stable.

Non-interest expenses, the fifth highlight. We showed -- we grew 4.4% in the quarter when we compare to the same -- in the semester, sorry, when we compare to the same period of last year. In it we exclude the expenses with Unibanco's branch migration, new points of sale that we are opening special branches and platforms to attend SMEs.

Redecard and Porto Seguro expense that we don't have direct control. We can see that when we compare to the first semester of 2009, nominal reduction of 0.6%. So in the quarter, the numbers are not so good, especially because we hired 2,000 people in the period, we increased our marketing expenses, especially because of the World Cup soccer. And that's the main reasons of the growth of our expenses in this quarter.

FINAL

Bloomberg Transcript

Going to slide number 3, we have a recurrent net income of BRL3.298 billion in the period. And we made provisions for contingencies related to economic plans that happened in the past year in Brazil of BRL133 million. That's the reason that our non-recurrent -- our net income was BRL3.165 billion, that's the number that we released.

On page 4, a highlight from our numbers, BRL6.4 billion in the semester for net income, BRL3.2 -- almost BRL3.3 billion in the quarter, managerial financial margin and banking fees, BRL33 billion in the first semester of this year, with a growth of 5% in the year-on-year. And a growth of almost 5% when we compare the quarters of 2010.

Results from the loan losses. Due to the better environment that we have in Brazil in terms of economic growth, we showed important decrease in provision that reduced net of the recovery of the write-offs credit of a reduction in this year of 15.8%. And a small increase in the quarter of 1.1%.

Non-interest expenses, like I said, a growth of 12.6% in the quarter. And when we compare the first semester of last year, 4.4%, that includes all the expenses of the Bank.

In the slide 5, net interest margin with clients, as mentioned, 10.1%. It was a very good quarter for making relationship with our client, especially related to credit and fees. The efficiency ratio was 46.7% sic; see Press Release [ph] was accumulated in last month. And 47.3% in the quarter. We still are confident that we are going to reduce this number to a lower level in the coming quarters, as the synergies appears more and, of course, also with the growth of our business. Recurrent ROE 24.4% in the first semester. And the same levels for the Second Quarter of this year.

And on page 6, assets, we finished with BRL651 million, growth of 2.7% in the quarter. The stockholders' equity BRL55 billion, a growth of 4%. Loan portfolio, a growth of 4%. And funding, total funding with clients including here AUM of BRL716 billion with a growth of 2.1%.

And on slide number 7, we can see better the turnout [ph]. I think I would like to highlight the financial margin with customers declined. I had mentioned a growth of 6.7%, showing a solid operation with our clients which is very important. And a reduction in the margin with the market.

The Treasury gains proprietary in structure, a total of BRL891 million with a decrease of 12.6%. What this growth shows that the growth in the margins came from the business, the recurrent business of the Bank with the client, especially related to the credit portfolio.

Also we can see the results from our operation in insurance, stable when we compare to the Second Quarter -- to the First Quarter. Another point I would like to point here is the provision for loan and lease losses BRL4.19 billion in the quarter, a little bit above of the First Quarter of 2010. And also recovery of credits written off that we showed an increase in the period, BRL967 million.

So it was good numbers when we compare to the last year, 2009, which helped us to increase our portfolio and increase the results. Retained claims also was better in this quarter, showing a better operations, also for our insurance at this.

In terms of expenses, we are going to explain a little bit more in the coming slides. But as I said, in this quarter, we had some extra expenses in this period, a little bit above the expectations from most of the analysts and investors. So the net income of BRL3.165 billion was the number that we used.

On slide 8, we see loans by type of clients. We continued to focus more on individuals and SMEs. We can see that individuals, the total portfolio was in terms of credit BRL296 billion; individuals, BRL107 billion. The growth in the quarter came more from credit cards and personal loans. Vehicles was a little bit lower than in the past, because we are focusing more in new vehicles in this quarter

after the fiscal incentives from the government was finished as the sales of new vehicles was a little bit lower. But we already saw some recovery in the month of July. So vehicles portfolio didn't increase much.

In terms of companies, we saw a big increase in our SME business, let's say, 6.7% in the quarter. We finished off BRL68 billion in the portfolio with a growth of 26.3% in 12 months. In line with our strategy to grow and to invest in this segment, we continue to increase the number of managers and people related to this business. Most of the 2,000 employees that we hired in the quarter was to serve in these segments of business. And we will continue this trend in the coming quarters.

When we saw the numbers for corporate company, we see that the growth was much lower, 3.3% in the quarter. And negative when we analyze 12 months. We finished with BRL92 billion. We had some -- still have some impact when we analyze 12 months related to the evaluation of the real against the dollar. Companies, corporate companies still are using more capital markets for debt and for equity. So it's more difficult to grow the portfolio here.

If we see the last line of this table, we can see corporate total risk. In this line, we included the securities that we carried in terms of debentures, commercial papers and other papers issued by companies that we have in our security portfolio. So we can see that considering this, the number goes to BRL104 billion in total credit in these securities. And the growth in the period would be 4.6%.

In terms of mortgage, continues to be very active. We finished the quarter with BRL10.5 billion, which is a growth of 12% in the quarter and 47.7% in 12 months. This continues to be very active, it's growing. But the skew is 23% of our credit portfolio. But it's the one that is growing faster.

On page 9, non-performing loans, we released 4.6%, reduction of 0.3% in the quarter. As I mentioned, we don't expect much gains in this ratio in the coming quarters. But both individuals and companies show better ratios, 6.4% for individuals. And 3.2% for companies for 90 days.

Additional provisions will remain for the Fourth Quarter in the same level that we had, BRL6.1 billion of additional provision. We don't intend, even with this better environment in terms of economic growth, to reduce this level. This ratio will be reduced by the growth of the credit portfolio. It is not our intention to reverse this level of provisions in the coming quarters. So with all these, the provisions and the additional provisions, our coverage ratio for 90 days remain almost flat at 187%.

On page 10, you can see that we have 8.7% for provisions. That is very comfortable, especially considering the environment that is good in terms of the growth of the economy.

On page 11, total funding considering deposits and also the AUMs at BRL716 billion, with a growth of 2.1% in the quarter. And 12% when we compare to the first semester of 2009, what give us very comfortable position in terms of funding to serve our -- the growth of our credit portfolio.

On slide 12, we can see that our relation -- our ratio in terms of loan portfolio and funding achieved 98.9% because of the new regulations related to a compulsory deposit ratio by the Central Bank in the first semester of this year. And we had to make huge amount of deposits at the Central Bank to face the new regulation. But we don't see any kind of problems if we -- to fund our credit operations to serve the growth of our credit portfolio.

On slide 13, banking fees, we can see what I said, the growth in terms of asset management, current account services and then also in terms of credit cards. And also in the line others, we can confirm the investment banking revenue that was more active this quarter also in the half, helping our growth of 4.4% in the quarter.

In terms of the expenses, on page 14, we can see that the total growth increased 12.6%. This number where both -- this makes up most of the analysts and investors. As I said, we had some extra people and also extra marketing expenses in the period. That explains most of the growth.

If we reduce the expense that we don't have direct control like Redecard expenses and Porto Seguro expenses that we consolidated in our balance sheet. And also reducing the investment in new points of sales and also the branch migration expenses that we are doing from the Unibanco network to Itau's network, the number of the growth would be 9.8%. And -- but we -- when we compare to the first semester of 2009, we see a nominal reduction in terms of expense.

We continue with our guidance of growth, total growth of around 5% for the year, between 3% and 5% for the year. And also, when we don't consider the expenses and the expansion of the bank and the migration expenses, the growth should be something between 0% and 3%. The BIS ratio at 15.7% would give us conditions to continue to grow our current portfolio and investment without problems.

On page 16, the segmentation. We had a quarter with a recurring net income of BRL3.3 billion with the four traditional segments that we present with the pro forma numbers, managerial numbers -- Commercial Bank, Itau BBA, Consumer Credit and in Corporation and Treasury, we have BRL3.3 billion in net recurrent income. BRL1.5 billion coming from the Commercial Bank. We allocated -- of the BRL55 billion of our shareholder's equity, we allocated BRL17.3 to this commercial operation. And this quarter, the RAROC for this commercial banking tiers, 36.5%. Itau BBA; BRL5,92 million in terms of recurring net income, BRL12 billion in terms of allocation of capital and RAROC of almost 20%.

Consumer Credit, BRL679 million in net recurring income, capital allocated BRL7.7 billion, RAROC 35.2%. And Corporation & Treasury; BRL532 billion, capital allocation, BRL18.2 billion with a RAROC of 11.8%, especially because of lower gains from Treasury in the quarter.

Our market capitalization. And it's slide 17, BRL150 billion at the end of the quarter. And we expected -- and our liquidity, BRL1.1 billion daily trading, especially in the New York Stock Exchange. And this number increased and probably will continue to increase a little because of the sale of the Bank of America position. That means 8% of our preferred share that are now quoted in the market. So liquidity is increasing with our shares here in Bovespa. And NYSE in New York.

We know we have a meeting here in Brazil with investors and analysts. It will be on the 17th of August at three o'clock. For those who want to join us, you're very welcome. For those who are here in Brazil, we will be here in Brazil. With this we finish the presentation and we are open for your questions.

Questions And Answers

Operator

(Operator Instructions) Our first question comes from Mr. Daniel Abut from Citi.

Q - Daniel Abut {BIO 1505546 <GO>}

Good morning, gentlemen. Alfredo, a couple of questions related to expenses. You mentioned that about BRL294 million in the first half relates to the migration of the Unibanco branches to the Itau platform.

I do recall that at the time the merger was first announced and implemented, you did create a provision to cover merger-related expenses. So the question is why wasn't this captured by that

provision in an additional expense that could have been foreseen at the time of the merger's initial implementation.

And second, related to that, is there any additional merger-related charges that are not covered by that one-time provision that are coming in the next few quarters that we should be aware of?

And the second question is related to this provision for contingencies economic plans, which I'm glad that this is not just Itau. Every single bank in Brazil does the same thing. They all call this non-recovering. But we've been seeing this every single quarter for the past, God knows how many, years. So it's really time that we start to consider this more recurring than non-recurring.

But the question is when is it going to end. And how much more do you think, in terms of quarters, of additional provision for economic plans in the neighborhood of BLR100 million, even paid per quarter are we likely to see?

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

Daniel, related to the branch migration, we are not able to include this expenses in the provision that we made at the time of the merge. It is not allowed. So our auditors didn't allow us to include this in the provision that we made at that time.

I think the rules are not -- don't permit -- doesn't permit to include this expense. What I can say is that we are accelerating this migration since March. So when we compare the First Quarter to the Second Quarter, the numbers are much higher in these quarter because we are in a pace of a 100 and 150 branches per month in terms of migration.

And it's not only a migration of systems. It's not only that. We are refreshing -- reforming all the branch. We are changing the equipment, we are changing the chairs and desks. And the layout is totally new. It is the new standard for Itau Unibanco that also we are, after finishing this 1,000 branches of migration of Unibanco, we will start also the reforms in the former Itau's branches also.

That of course, will be in a different pace, not so fast. But anyway, we are going to do the same layout and the same things that we are doing now. So for our numbers, for your perspective, you should consider in this Second Quarter and third -- third and Fourth Quarter, almost the same level that we did -- that we have in the same -- in the Second Quarter.

I think it's very realistic to consider this level of expenses in the third and Fourth Quarter because our intention. And everything is going well in this direction, is to finish the integration of the branches by the end of November. So we too have almost 500 branches to do in these four months ahead. So the level of expenses will remain almost neutral.

A - Unidentified Speaker

Economic plans?

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

In terms of economic plans, these provisions are more related to the caller plan of 1990. We still have one plan more, the caller 2. But it's very small. We don't expect much provision for that. But the period that the people can complain is finishing. It is 20 years. So we are almost in the end of this level five provisions against these economic plans. So probably in the coming quarters, these numbers will be lower. We don't know how much lower. But we'll be -- we will see some reduction because of the time for these claims finishing.

Q - Daniel Abut {BIO 1505546 <GO>}

Thank you, Alfredo.

Operator

Excuse me. Our next question comes from Mr. Mario Pierry from Deutsche Bank.

Q - Mario Pierry {BIO 1505554 <GO>}

All right. Good morning, everybody. Let me ask you two questions also. On asset quality, if I understood you, you said you do not expect any further improvements in non-performing loans in the second half of the year. If you can just give us more color as to why you don't seem to expect any more improvements. Talking to your peers, it seems like they feel confident the asset quality should continue to improve, given how strong the economy is in Brazil.

Then the second question is related to your trading gains. I know it's a very difficult number forecast. But you have been running close to BRL1.5 billion a quarter, last year. This year we're running closer to BRL1 billion. Do you still think a BRL1 billion is a sustainable level or should we eventually see trading gains normalizing back to the BRL500 million per quarter level? Thank you.

A - Rogerio Calderon

Thank you, Mario. Rogerio speaking. In terms of assets quality, what Alfredo just said is that most of the improvement in the credit quality is already taking in our ratio, this is because of the maturity of the interest. So we do think that we can have a further benefit or not. But it should be very small.

So any slightly movement is possible. But most of the benefit is already taking. So we are now running the bank at 4.6%, which is a 100 bps lower than by the end of the year. And we should also highlight that the mix is changing a little bit. So we are increasing much more towards SMEs. So there is actually a change in the risk mix in our portfolio. So we believe that it should be flat through the rest of the year.

Regarding trading gains, you're right. And we always said that it wouldn't be feasible to repeat the same results as last year because the circumstances are quite different this year. But we are foreseeing 800 to 900. It's -- we never give any forecasts on the direction of this. But it should be not far from this. Maybe it's still a little bit high than the sustainable level. But it should not be too far from this from now on.

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

Mario, it's Alfredo. Just to complement what Rogerio said about the delinquency, in our models, we -- as long as the Central Bank is increasing the interest rate, we should expect some reaction in terms of economic growth and delinquency.

So when we analyze our models and we put the forecast of the interest rate, then probably you'll grow a little bit more higher. We can expect at least the delinquency to remain stable; increase a little bit. But it is not realistic to suppose that the Central Bank increase the interest rate and nothing happened.

A - Unidentified Speaker

That normally impacts the balance of (technical difficulty). It balanced --

Q - Mario Pierry {BIO 1505554 <GO>}

Our view always was, right, unemployment continues to improve, disposable incomes are rising. I do understand that the high interest rates should slow down the economy. But we're still talking of an economy that's growing 4.5% annual pace probably in the second half of the year. So that's why I was a bit surprised.

A - Rogerio Calderon

And Mario, we agree. So unemployment is really one of the most important indicator for us. This is absolutely under control. So we don't expect any trouble in terms of delinquency. What we are just saying is that looking not at the macroeconomics. But looking at our portfolio, a movement up or down should be eventually noticed. But not big. We included -- if you consider from 5.6 to 4.6, it represents more than 15%. So it should not be at the same level anymore. Most of the benefit is already captured.

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

And you have to remember also, Mario, that we have a mix with more components of credit related to SMEs and individuals. When we compare with the numbers of 2008, the mix was different. The weight of corporate was much bigger than today. So also is another factor that give us the models that we are almost there in terms of reduction, in terms of the delinquency ratio. We hope we are wrong. But we have really conservative --

A - Rogerio Calderon

At the end of the day, if you're right, Mario, we would be very glad actually.

Q - Mario Pierry {BIO 1505554 <GO>}

All right, guys, thank you.

Operator

Excuse me. Our next question comes from Mr. Jon Prigoff from Equinox.

Q - Jon Prigoff {BIO 19746183 <GO>}

Hi, just a follow-up question on the expense side. You mentioned that you added 2,000 employees roughly in the quarter. And I was wondering if you could talk about where -- what areas you are adding people in. And what your thoughts are in terms of headcount terms. Thanks.

A - Rogerio Calderon

Well thank you for the question. So it's really attracting lots of attention, our expansion -- expenses this quarter. So let me spend a little bit more time on this. What we should observe is that from the -- when we compare the Second Quarter to the First Quarter, first of all, we should consider that First Quarter is normally benefited by the seasonality.

So it's normal than Second Quarter is bigger than the First Quarter. It just happened differently last year. But it was abnormal. Normally, Second Quarter is higher than the First Quarter.

If you consider, on page 14, if you consider that our total non-interest expenses deflected by this Redecard, Porto Seguro and new points of sales and branches is BRL600 million more than First Quarter. I just want to draw your attention that around BRL200 million is due to the seasonality.

We had another BRL80 million to BRL100 million more in advertising because of the World Cup, single event. That is not going to repeat. And the defense is indeed what increased in our total expenses. And this was mainly due to personnel expenses where we added 2,000 people this quarter.

So this was included in our budget. The guidance on expenses, already considered that. And the efficiency is considered. So everything is aligned with the budget. This. And just to finalize, you asked about the 2,000 people, they are mainly driven to SMEs platforms. That is increasing. You

saw the figures, it's increasing 27% this year. It's going to remain being one of the boosters of our growth. So we need people to serve those new clients.

Q - Jon Prigoff {BIO 19746183 <GO>}

Okay. Thank you very much. That's helpful.

Operator

Excuse me. Our next question comes from Mr. Boris Molina from Santander.

Q - Boris Molina {BIO 1904979 <GO>}

Yes. Just one final question regarding the cost. In your First Quarter presentation you showed expansion cost of the network, BRL347 million. But in your slide in this quarter, you are showing BRL54 million. So I would like to know what is the next opportunity and how could we think about these costs.

And secondly, what is the number of a point of sale that you have, like working progress that you are planning to add. And what is the rate of points of sale that are driving these costs and how much you would expect the point of sale to grow towards the end of the year, in terms of new points of sale?

A - Rogerio Calderon

Boris, your first question, actually you are right. We changed a little bit the criteria to show these figures. The current figure is BRL54 million regarding the First Quarter. I can explain further. But I need some details that I don't have on my hands right now. But the correct figure is BRL54 million.

Could you repeat the second part of your question?

Q - Boris Molina {BIO 1904979 <GO>}

Yes. If you're showing BRL54 million in the First Quarter and BRL68 million in the Second Quarter. So then my question is how many points of sale are you in plans of opening -- driving these costs and how many points of sale do you plan to add towards another year so that we can have an idea of more or less how this line is going to -- performance is going to remain at this level on a foreseeable basis. Given your expansion plan on your branches for this year and next year, how could we think about this?

A - Rogerio Calderon

Okay. So it should be more or less at the same pace. And we are planning to open up 150 new branch this year. We reaffirm the target. Most of the new branches ongoing right now are going to be opened within the next month, if not all of them, till the end of the year, should be by the beginning of next year. But you should use around 150 branches this year.

Q - Boris Molina {BIO 1904979 <GO>}

Okay, wonderful.

Operator

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

Q - Saul Martinez {BIO 5811266 <GO>}

Hi. Good morning. A couple of questions. I'm going to continue on the cost side unfortunately for you guys. But can you talk about the viability for guidance on expenses, 3% to 5% of total and then 0% to 3%, I think excluding expansion costs in Porto Seguro and Redecard, because if I look at these numbers, unless -- and forgive me if I'm missing something obvious -- unless your expenses actually declined in the Third Quarter. And in the First Quarter relative to what they were in the Second Quarter, I don't see how you get to those guidance metrics. So can you talk a little bit about why you're sticking to that guidance range on expenses?

And secondly, can you talk about why your effective tax rate was less than 24% in the quarter? I think in the past, you guys have had a tax rate of 26% or 28% pretty consistently. What drove that lower tax rate. And what should we be expecting going forward? Should be expect that tax rate to turn back upward in the coming quarters? Thanks.

A - Rogerio Calderon

Okay, Saul. So okay. So we reaffirm the guidance on expenses. This peak in terms of -- this spike in terms of expenses in the Second Quarter was already included in our budget. When we gave the guidance from 3% to 5% total costs increasing, it was already [ph] considering including this peak on World Cup things. And all the migration, et cetera. So that's what make us very strong to reaffirm that it should be, by the end of the year, within the 3% to 5% range, yes.

And I don't know exactly the calculations you made. But it's more or less we should keep it stable during the second semester level of expenses with some compensations of this taking the Second Quarter. And this is our -- what we believe is -- is actually what we believe is going to happen.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay.

A - Rogerio Calderon

We are quite confident on this, okay, Saul, quite confident.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. How -- you're confident. But how viable is that? I mean, you're still growing, headcount is increasing, you have a wage hike happening in September. And commercial activity is very high in the Fourth Quarter. You're confident that in spite of all that, the expense levels will remain roughly flat versus what they were in the Second Quarter?

A - Rogerio Calderon

It's viable because we have -- you're right, we have these expenses going up. But we have synergies being captured month by month. So when you add and deduct, it's going to be stable during the rest of the year more or less.

Q - Saul Martinez {BIO 5811266 <GO>}

That will work. And I hope --

A - Rogerio Calderon

What makes it viable is actually the synergies that we are capturing. Can I go to the second question?

Q - Saul Martinez {BIO 5811266 <GO>}

Sure.

A - Rogerio Calderon

So effective tax rate. Yes. We had some movements from the First Quarter to the Second Quarter, some small adjustments. But if you consider the first semester, you're going to find this level you were mentioning as 26%, 27%. And looking forward, this is the level that you should consider in your models. In summary, we are talking here on the total 34% income tax deducted by the benefit of interest on net equity. What we -- drives us to the 26%, 27%, that is our normal level.

Q - Saul Martinez {BIO 5811266 <GO>}

Why was it so low in the Second Quarter?

A - Rogerio Calderon

Well second -- when we consider first and Second Quarter, we -- it appears in which we file the income tax or the papers. So we have some small adjustments ups and downs. But it's -- 26 is the correct figure for the future.

Q - Saul Martinez {BIO 5811266 <GO>}

Great, thank you very much.

A - Rogerio Calderon

We didn't have any measure, I think, to highlight. It's several things that shows this figure down this quarter.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. Thank you very much.

Operator

Excuse me, ladies and gentlemen; our next question comes from Mr. Marcelo Telles from Credit Suisse.

Q - Marcelo Telles {BIO 3560829 <GO>}

Hi. Good morning, gentlemen. Most of my questions have been answered. But I might introduce two others. The first one, you mentioned that you do not expect much improvement in your NPL ratio going forward. And one of the explanations is that the higher participation of the SME portfolio.

I was wondering if you could quantify what your delinquency rate in SME portfolio is right now. And just to have an idea, compared to the whole commercial portfolio that you have -- that you have today.

And it's -- and also on the branch expansion side. And we saw that in the first half of the year, actually your number of branches have actually declined by five branches, if I'm not mistaken. So that means that all that the branch expansion would be concentrated in the second half.

We see some of your competitors reducing the overall expectation in terms of branches, there seems to be some difficulties in the process, I know you reiterated that. But in your case, you're not facing all the same issues that some of your competitors are. And what is the reason for that? Thank you.

A - Rogerio Calderon

Well we don't give any specific information on delinquency in the credit portfolio. But what I can anticipate to you, Marcelo, is that we -- the NPL ratio for SMEs is higher than the average. So every time we have an increase higher than the average of the portfolio we have marginally an increase in this ratio.

A - Unidentified Speaker

Branches.

A - Rogerio Calderon

In number of branches, if I am not making a mistake, we have one branch left than in the previous quarter. However, it does not mean anything in terms of the total branch we are going to reach by the end of the year. We reaffirm that we should be opening around 150 branches during this year, most of them, if not all of them are ones ongoing. And should be open at the end of the year if not by December, or January or February. So it's a 150 branch within the next months.

Q - Marcelo Telles {BIO 3560829 <GO>}

Thank you. One last question if I may. I mean, we saw an improvement in credit recoveries in the quarter. Given that you have problem at bigger level of charge-offs, given the delinquency you had in the best year [ph]. So would you expect that line to continue to increase in the coming quarters, or do you think that will be no more or less stable level going forward? Thank you.

A - Rogerio Calderon

Well this high level in recovery is due to -- of course, due to the higher level of charge-offs and linkage [ph] from last year. But we also made some additional efforts on this direction. Since we had more assets to recover, of course we had more attention on this. We are very close to the -- if not have reached yet, we are very close to what we believe is going to be flat for the next month. So you should not consider any further increase on this figure.

Q - Marcelo Telles {BIO 3560829 <GO>}

Excellent, thank you very much.

Operator

Excuse me; our next question comes from Mr. Jason Mollin from Goldman Sachs.

Q - Jason Mollin {BIO 1888181 <GO>}

Hello everyone. My question is on loan growth. Itau Unibanco's quarter on quarter reported loan growth has trailed the bank's two largest private sector peers. However, these peers have each purchased between BRL3 billion and BRL5 billion in loans in the Second Quarter alone.

Excluding the purchases by your peers of those, loan growth looks better, ahead of one and in line with the other. Do you -- does Itau view loan purchases in the current environment as an attractive use of capital. And should we expect to see loan purchases by Itau in the future. And just as a follow-up, are Itau's loan-growth expectations -- I believe at 18% to 23%, (inaudible) corporates for only organic growth, or do they include purchases or acquisitions, own acquisitions?

A - Rogerio Calderon

Jason, we are more concentrated in terms of organic growth. We are not considering any acquisition of portfolios. And although -- and we've seen some reduction in the portfolio that we already bought in the past. So our growth will come from organic. And our own efforts in terms of growing with our clients.

Q - Jason Mollin {BIO 1888181 <GO>}

But given [ph] excess capital, is this -- could this be an interesting use of funds for Itau? Or it's not attractive in the current environment is what you're saying if you're -- indirectly, implicitly, I guess you're saying that because you're letting the portfolio run off.

A - Rogerio Calderon

Our BIS ratio is comfortable. We think this level is good. Of course, if you re-buy our portfolio, it should be better than carry on our securities in Treasury. (inaudible) through this point. But it's not our intention to use this capital to buy portfolios.

And we're not seeing much opportunities in terms of buying these portfolios. Maybe should have some in terms of (inaudible) business and things like that. But -- and we are not considering -- we are not (inaudible) anything. We're continuing our trend of growing organically.

Q - Jason Mollin {BIO 1888181 <GO>}

Great. And my second question is related to Itau's insurance operations. Can you give us an update on the outlook for the Life and Pension businesses for the second half of this year, maybe some comments on the competitive environment? Are we seeing any -- is there pressure on pricing, or actually with higher rates, there is less -- prices are actually improving for the bank?

A - Rogerio Calderon

Jason. So if you look at insurance and pension plans and capitalization, we reached BRL356 million during this Second Quarter, what is around 7% higher than the First Quarter. And -- the return the way we calculated, return on allocations is kept actually, also raised it from 38 to 35.

Also Porto Seguro is going fairly well, the association and increasing. So what I could -- I don't have more specific data with me regarding the future of this insurance business. But what we see is a very firm trend, positive trend.

So we have now very solid position in terms of technical provisions. And the return (inaudible) level of capital we have there. If you want, we can go further and discuss specifically insurance. We can organize a (inaudible) based insurance. I don't have more specific data with me here right now.

Q - Jason Mollin {BIO 1888181 <GO>}

No problem, thank you very much.

A - Rogerio Calderon

Thank you.

Operator

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

Q - Federico Rey {BIO 21612520 <GO>}

Thank you, madam. My questions have been already answered. Thanks.

Operator

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

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

Thank you for your time for being with us. I think we showed a good result. I think the quality of the result of this quarter is better in our view from the quarter before because we had more gains and more revenues from client business and not from treasury.

We're continuing that good trend in terms of growth of our credit portfolio. So we are very confident that we're going to achieve the guidance that we provide in terms of credit, in terms of expenses, for the year. And of course, this will depend in the pace of the Brazilian economy that we also are confident the growth will continue for many quarters ahead. So the environment for the bank business will continue to be good.

Thank you, again, sorry for the delay at the beginning. And hope to be with you in the next conference call for the Third Quarter. Thank you.

Operator

That just concludes 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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