

Q3 2010 Earnings Call

Company Participants

- Alfredo Egydio Setubal, IRO
- Francisca Istella Fagaff
- Rogerio Calderon, Corporate Controller, Head
- Zacha Hogi, EVP, Insurance and Marketing

Other Participants

- Daniel Abut, Analyst
- Jason Mollin, Analyst
- Larry Vitale, Analyst
- Marcelo Telles, Analyst
- Saul Martinez, Analyst
- Tito Labarta, Analyst
- Victor Galliano, Analyst

Presentation

Operator

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 Fagaff) of Financial Investor Relations Brazil. Please go ahead.

Francisca Istella Fagaff

Good morning. Welcome to Itau Unibanco Holding conference call on the Third Quarter 2010 earnings. This conference call is being broadcast live on www.itauunibanco.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 Alfredo Egydio Setubal, Investor Relations Officer, Sergio Ribeiro da Costa Werlang, Executive Vice President of Risk Control and Finance, (Zacha Hogi), Executive Vice President of Insurance and Marketing, Caio Ibrahim David, Chief Financial Officer, Rogerio Calderon, Corporate Controller and

Head of Investor Relations, Marco Antunes, Accounting Director, Rodolfo Henrique Fischer, Itau BBA Vice President.

First, Mr. Alfredo Setubal will comment on the Third Quarter of 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, for those who are in the US. Good afternoon, for those who are in Europe. We are starting our conference call. For those who are following through the internet and through the slides, we are starting with slide number two, with the highlights from the Third Quarter. I think the first highlight is an important one, is that we finished the branch migration process in reality during this month of October and less than two years after the announcement of the merge with Itau and Unibanco. It was a very important process.

During these two years, many things were done in terms of integration of ATMs, integration of people, moving people from one building to another to stay together in the same area. And we finished now the integration of the branch and we concluded in October 24, the process of integration of 1,200 Unibanco branches and customer-size branches into the Itau operational system and Itau brand. It was a huge effort from most many areas inside the bank, many providers. And we were able to finish a little bit before schedule in this month of October.

We still have some work to be done next year related to the systems and the activation of systems of Unibanco that we have to see what we have to keep for fiscal purposes, for customer needs and so on. So during the year of 2008 -- 2011, especially during the first semester of 2011, we will be finishing all these systems and then we can turn off all the systems of Unibanco related to the branch network and capture more synergies due to these integrations.

The second highlight is the net income. We finished with BRL3.2 billion. It was an increase of 17.5% in term of recurrent numbers when we compare to nine months of last year, 22.2% in terms of recurrent ROE. If we don't consider the BRL406 million in migration expenses that we had this quarter, this Third Quarter, the net recurrent income would have reached BRL3.4 billion and an ROE of 24.4%. So in our view, it was a very strong result, a very strong numbers, especially when we analyze the numbers that we generate from the clients, from the expansion of the credit portfolio and revenues from services and so on.

The third highlight is related to the growth of the credit portfolio. We reached BRL313 billion in the credit portfolio. It was a growth of 5.7% compared to June and 16.6% when we compare 12 months ago. So our growth was a little bit higher than the average of the system. The financial system and growth was 5.4%.

The highlights continue to be companies. The growth was 6.7% last quarter. In this quarter, we had a growth in corporate companies that have been more stable in the last

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quarters. The growth for corporate loans was 5.8% and the highlight continues to be small and medium-size companies where the growth was almost 8% in the quarter. So we continue to focus on these segments, especially small and mid-market companies.

In terms of individuals, the portfolio achieved BRL119 billion. The growth in the quarter was 4.1% and we continued to grow the growth in terms of vehicles, financing. And in credit cards. Mortgage continues to grow in a very strong pace. In the last 12 months, the growth was 53% and in this quarter almost 14%. So we achieved BRL12 billion. It's a little bit more than 4% of our total credit portfolio. But it's still small. But growing very, very fast.

The fourth highlight is really to financial margin. We increased 3%, achieving BRL10.3 billion. We are going to talk a little bit more about this in the coming slides. And also (fees) that the growth was, in 12 months, 17% higher than we expected. Our guidance was at 15% growth for the year and probably will be higher than 15%.

The fifth highlight is related to non-performing loans. This quarter also we showed a positive number. Our reduction from 4.6% to 4.3% in an average of our portfolio, better than we expected at the end of the Second Quarter. And we still see some room to improve, especially related to individuals. The sixth highlight is related to non-interest expenses.

As I said, we had, in this quarter, BRL406 million related to the branch migration. And if we exclude this number and also the expenses that we received from Redecard, Porto Seguro. And also the ones related to the expansion of the network to serve the clients, the growth would be 1.1% when we compare to 2009. So I think it's a good number in terms of growth of expenses when we compared things comparable between 2009 and 2010.

Next slide, slide number five. We had a recurring net income of BRL3.158 billion. And in this quarter also we had some provision for economic plan of BRL124 million, a little bit lower than in the Second Quarter and probably we still have some provisions in this Fourth Quarter and First Quarter of 2011. When we finish the time for claims related to the caller plan number two. So the total non-recurrent -- the total net income was BRL3 billion.

On slide number six, some graphics of some numbers of the bank, a growth of 25% in 12 months, when we compared the BRL9.6 billion in net income. If we exclude the migration expenses in the quarter, in the year, the number would be BRL10 billion, a very strong growth when we compare to last year.

Managerial financial margin and banking fees, a growth of 5.6% in 12 months. Loan losses, important decrease in terms of net provisions, a reduction of 17.7%, actually BRL9 billion this year. And non-interest expenses of a growth of 8.2%. And if you don't consider the number that I showed before, it would be 1%.

Highlights also on page seven. Net interest margin, a growth of 60 basis points in the quarter -- when we -- in 12 months, sorry. And efficiency ratio also decreasing is showing some gains from the synergies of the merge. Recurring ROE, 23.8%. And if you're not considering the migration expense, almost 25%.

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On page eight, as the growth of assets, we seen a show of BRL686 billion in assets, a growth of 5% in the quarter, especially related to credit portfolio. Stockholders equity, BRL57 billion. Loan portfolio, BRL13.3 billion, a growth of 5.7% in the quarter. And funding, a growth of 5% in terms of deposits and assets under management of BRL752 billion.

On page nine, some more -- the results more open. We can see the financial margin with clients, (around) BRL10.3 billion of a growth of 3%, showing that we are very focused in the client business and we are growing this client business for -- in the bank. What is good for long-term results and long-term relationships with the clients.

Financial margin with the market, that is the treasury operational and profitary debt, BRL906 million, in line with the Second Quarter with a growth of 1.7%. In terms of fees, the growth of 3.5% in the quarter, very strong and very solid, more related to volumes and not in terms of price increases. Results from the insurance pension plans and capitalization, a little bit lower than the Second Quarter. When we compared year over year, we can see some growth of 1.5% in the consolidated results for these areas.

In terms of loan losses and claims, BRL3.6 billion, a little bit lower than in the Second Quarter. The level of provisions for credit losses was a little bit higher. But the recover was higher also. So the net number is better than in the Second Quarter. And a reduction, very important when we compare to 2009, remembering that in the Third Quarter of 2009 was the peak in terms of delinquency in Itau Unibanco Holding. So at the end, we finish with a net income of BRL3.3 billion.

On slide ten, loans by client type, we see that we continue to grow individuals very strongly, especially related to credit cards and vehicles and mortgage that is gained space, a growth of 10.8%, BRL7 billion of mortgage related to individuals of the total of BRL12 billion that I said before. The difference is to the developers.

Companies, the growth was very important 6.7% in the quarter. The total number is BRL180 billion. This quarter we saw some growth, important growth in corporate loans BRL104 billion with a growth of 5.8%. And very small and medium market companies, a growth of almost 8% continues to be the focus and a very important part of the results of the bank.

On page 11, we can see a graphic of non-performing loans and coverage ratios. We saw the peak in September '09 and the number for individuals at that time was 8.1%. Now is 6%. 6% is below the level that we were at the end of 2008. So we continue to see a better results here also for individuals, more related to a better environment. And also for some growth in some portfolios that has level (delinquencies) as mortgage, for example.

In terms of companies, the peak was 4.1%. We are now 2.9%. In December '08, 1.3%. We don't believe, due to the mix that we have today, that we are going to the same level that we were before. Probably that is 2.9%, we'll remain around that or a little better. But not much better because today we have much more small and mid-size companies than in the past.

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So these -- especially these small companies present delinquency ratios much higher than corporate and mid-market companies. The additional provisions remain flat BRL6.1 billion. And we have a coverage ratio of 196%, very, very comfortable in this environment that we are having in Brazil. Provision for loan losses, 8.3% of the total portfolio, considering how the specific, generic. And additional provisions also very nice position.

On slide 13, we can see all the deposits and pension plans and funds and assets under management as a total number of BRL941 billion with a growth of 4.2% when we analyze the growth through the Second Quarter. The ratio between loan portfolio and funding, considering the compulsory reserves, 76%. Not considering, 96%. Very comfortable as we don't see as funding deposits as an issue to continue to grow the credit portfolio.

On slide 15, banking fees. Very important growth, as I said, 17% in 12 months. The guidance that we provided at the beginning of the year for 12 months was 15%. So we are here a little bit above the guidance. And the main areas continue to be asset management, loan. And credit cards. Non-interest expenses on slide 16. The growth of total non-interest expenses was 8.2% in 12 months, 5.3% in the quarter.

In the quarter, as I said, we had these BRL406 million in migration expenses. So if we take off to be more comparable with 2009, Redecard expenses, Porto Seguro expenses, new points of sales expenses. And the branch migration, we will see that the growth, in terms of non-interest expenses, is 1.1%. It was a very good number, showing much below the inflation and showing through these numbers some synergy gains that is appeared.

On slide 17, the BIS ratio continues to be very comfortable, 15.3%. On slide 18, the segmentation that we made traditionally import big blocks of the results of the bank -- the commercial bank, Itau BBA, consumer credit. And corporation and treasury. Corporation her meaning the excess of capital.

So we can see the split of net income, the allocation of capital for each of these segments. And the RAROC that these segments provide for the result of the bank, showing that we have very solid operations in all these segments, especially the three ones related to client relations. So we are in a very good operation in the bank.

On slide 18, insurance pension plans and capitalization. We see the consolidated numbers of BRL400 million in the quarter. These numbers are growing continuously. In this chart, we don't have the business that we sold to Porto Seguro that was the car insurance and residential insurance.

And here are just the numbers related to the insurance that we still operate through our insurance companies. That means that 50% of our premiums are related to life insurance. We have 23% -- almost 24% of extended warranty and we continue to have a very important presence in big risks with the corporate property risks with the big companies.

The pension plan technical provisions achieved BRL48 billion and the total technical provisions for the insurance and capitalization business, BRL8.2 billion. And to finish the market capitalization of BRL187 billion, just considering the non-voting shares and the

volume of our shares, the -- in October, BRL600 million and the trades continues to be more concentrate in the ADRs in the New York Stock Exchange. So now we are all here open for the questions that you probably have about our numbers.

Questions And Answers

Operator

Thank you. Ladies and gentlemen we will now begin the question and answer session. (Operator Instructions) Our first question comes from Mr. Daniel Abut from Citi.

Q - Daniel Abut {BIO 1505546 <GO>}

Good morning, gentlemen. A couple of questions, Alfredo. On the brand migration costs, as you explained in slide 16, it was BRL406 million this quarter, almost doubling the amount of the prior quarter. Given that you concluded the process already. But not until the end of October, there are probably going to be some additional brand migration costs here in the Fourth Quarter, although they should be significantly lower than the BRL406 million of the Third Quarter. Can you give us an indication of how much should we expect in the Fourth Quarter, just to put this expense line finally behind?

And second, on fee income, you highlighted that you had guided initially 15%, a type of growth in fee income for the year as a whole. Taking the first nine months, you are above that, 17%. How should we think about fee income going forward, headed into 2011? I remember not so long ago, Brazilian Bank were growing fee income at the 15%, 20% annual pay. Then came all this effort by the Central Bank to regulate better fees and tariffs and this line was brought down to single digits.

Is now the pace of growth coming from volumes and new clients and new products strong enough to sustain growth in fee income going forward in 2011 and beyond comfortably in double digits or is 2010 the exception to the rule, given that there was going to be some kind of rebound factor after that new regulation was suggested?

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

Hello, Daniel. Related to your first question, we had this far BRL235 million strongly in the Second Quarter, BRL406 million in the Third Quarter, related to the migration. And this quarter we don't have a precise number. But you can consider something between BRL180 million and BRL200 million related to this 187 points of sales of Unibanco that we finished during the month of October.

Remembering -- always remember that we have a recurrent expenses of -- all of remodeling in branches every time. Next year we are going to remodel 600 branches of Itau into the new model that we did with the Unibanco's branches. We are going to change the layout, we change the furniture. Of course, it's much, much less expenses when we compared to the migration of Unibanco into Itau's operational and branches. But you have to consider some expenses for next year related to the Itau's branches.

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Fees income, the second question. Fee income, this year it's much higher than we expected. The guidance that we provided is 10% to 15%. We are 17%. This is much more related to volumes of -- than prices. The prices we are not increasing is -- the competition doesn't allow and so to what is growing is that people and companies are using more the banks. We are expanding also our client bases in terms of individuals and companies and volumes. I think the correct answer is volumes are very high, due to the economic growth and the good environment. People are using more banks and using more services. I think that's the most important thing.

Q - Daniel Abut {BIO 1505546 <GO>}

So when we think about 2011 and beyond, if we assume that the environment will remain benign and more clients and more products and more usage, it's not unthinkable that fee income growth could stay in this double digit zone that you have guided for this year in the 10% to 15% range.

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

It's difficult to forecast. But my guess that next year we don't have yet the budgets done. But my guess is something between 10% to 15% to start with some number, I think, is totally feasible.

Q - Daniel Abut {BIO 1505546 <GO>}

Thank you, Alfredo.

Operator

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

Q - Saul Martinez {BIO 5811266 <GO>}

Hi. Thanks for taking my call. My question is on your financial margin. Your net interest income from clients only grew 6.7% year on year. I think quarter on quarter the growth was somewhere in the neighborhood of 3%, in spite of year-on-year growth in your loan book of close to 17%. And that's fine and I get that credit losses are declining, asset quality is getting better, you're moving into lower risk segments, which have lower spreads. But you made the comment that you think MPLs will stabilize at a higher level than the historical average of 2.9%.

Doesn't that give some cause for concern that, as you move forward, competition and spreads may continue to reduce? And I think you guys have mentioned that in the past. Yet at the same time, there's less room for continued reduction in credit losses. Doesn't that suggest that your net interest income growth after provisions will be very light going forward?

A - Rogerio Calderon

Hi, Saul. Rogerio speaking. Well the way we see, the way we forecast is that we should see some additional compression in the net interest margin before bad debts and this is

going to be highly impacted by the much better credit quality environment in Brazil. So if we look at the risk adjusted net interest margin spreads, we are not expecting any major change, although we have a fierce competition. But the players are -- and the behavior is -- tends to be very rational as they are proving to be so far. We are not expecting -- and when you look at the total amounts, then definitely we expect that the volumes growth should more than compensate this slight reduction in net interest margin spreads.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. I'm going to push you on this a little because I'm hearing two somewhat contradictory things from you guys. One is that over time credit losses and better risks will reduce your provisioning level. But at the same time, during the commentary, you mentioned that MPLs would kind of stabilize because of a mixed shift towards SMEs within the corporate segment. So I guess my question is which one? Is -- are the two things contradictory? Because my sense is what you guys have been saying is that your MPL and your provision will start to stabilize. But at the same time, you're saying that, over time, it will go down. I'm not sure which one it is.

A - Rogerio Calderon

Well we may have some time effects. But we still see some room for a small adjustment down in MPL, particularly on the individual portfolio because we are moving, actually, on the other direction, on the direction of the safer portfolios, for individuals, I mean. I'm talking on mortgage. I'm talking on brand new vehicles. I'm talking on payroll discounts, type of credit. So all said, we should see some additional decrease in the net interest margins, in terms of the spreads, I mean, for individuals. But as I said so, we are not expecting any major change in the risk adjusted line. So we may have some time effects in the behavior of the line. But it's all right there.

Q - Saul Martinez {BIO 5811266 <GO>}

Okay. Okay, that's helpful. Then just a quick follow-up. Can you just give a -- just some updated thoughts on international expansion, especially in light of what are pretty lofty multiples outside of Brazil and Lat Am, kind of how you're -- any update in terms of kind of how you guys are thinking about growth outside of Brazil?

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

It is Alfredo. We continue -- I think we, in the last two years, we were -- we have been able to do the migration and all the integration of Unibanco and changing culture and we did a lot of things inside the bank. And at the same time, we were able to keep the pace of the bank here in Brazil, not losing market share, even gain some market share in some areas in some products. And I think this is the trend.

We -- our focus is to continue to focus in Brazil. Brazil is growing. Probably will grow 5% a year in the coming years if the international environment continues to be good in terms of commodity prices. This will bring new customers to the system because the income of individuals will continue to have real gains in the coming years.

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So we still believe that Brazil is the best opportunity that we have in terms of growth for the bank in many products -- in banking, in credit cards, in insurance. And many, many products because of this bank acquisition of individuals and also because we are seeing also a growth in terms of companies, in number of clients, in terms of companies that we are gain. So the opportunities that we have here in Brazil with good spreads and good growth, I think, is enough to us to really continue to focus here in Brazil.

By the other hand, we have presence in other countries. Unibanco has a bank in Paraguay and we have banks in other countries as Itau. And these banks, we continue to operate them. They are not so big. I think our natural growth, if we go internationally someday, will be Latin America and starting from, if possible, with the country we already are and we don't have a very important presence like Argentina and Chile.

We are not study any bank acquisition. We see that the valuations of the Latin American banks are very high. So we are not considering any bank acquisition. We are not study anything. We can maybe grow some marginal things in the country that we are -- we are not considering any big acquisition that will transform Itau Unibanco Holding into an international bank. That's not our target. I think that the tradition of both banks -- Itau and Unibanco -- is to do -- use, when possible, accretive to the shareholders. And that's what is behind.

At the same time, we are explaining some operations like Itau BBA. It's being more active in Argentina, in Chile, running the corporate business, investment banking is considering to open in Peru. We have a private banking operation international. We open a bank in Zurich. We have Latin clients, not only Brazilian clients. We are expanding this operation.

But it's very -- it's not an intention of the bank to really increase outside Brazil, especially in these years and probably for many years that Brazil will be a very important place for banking. I think we are in the position -- we are the leaders in terms of private banking -- private banks. In the country that is growing, we have the position that many of our competitors and banks would like to have this position.

So we will continue to focus here where are the opportunities and if appears anything outside, we will consider. But it's not the focus. We are not knocking at any door to buy any bank anyplace. I think that is what is happening here at the bank and we are very focused in grow and taking advantage of the Brazilian economy in the coming years.

Q - Saul Martinez {BIO 5811266 <GO>}

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

Operator

Excuse me. Our next question comes from Mr. Tito Labarta from Deutsche Bank.

Q - Tito Labarta {BIO 20837559 <GO>}

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Hi. Good morning, everyone. Good afternoon. Just a -- there's some local -- comments in the local press recently that the new government could increase reserve requirements. I just wanted to get your thoughts on which reserve requirements you might increase and what would be the effect to you. Thanks.

This is -- Tito, this is Sergio Werlang. Well yes. There has been some talks that if inflation gets out of the target, one of the instruments that the government may consider to use additionally to interest rates is to increase reserve requirements. So they can raise again reserve requirements in either time deposits or in demand deposits.

They have been higher -- in demand deposits they have been much higher. So it's a model instrument. And as always, when you do that, the result is simple, you curve demand to an increase in the final -- in the spread. There is no other way because you'll have less to loan -- the system, as a whole, has less to load for the same amount of depositors.

All right. Thank you.

Operator

Excuse me. Our next question comes from Mr. Victor Galliano from HSBC.

Q - Victor Galliano {BIO 1517713 <GO>}

Hi, yes. Thanks. Just a follow-up on some of the cost issues that was raised. So 600 branches of Itau are going to be remodeled in 2011. Can you give us some idea of what the average cost of remodeling for a branch is there? And also, in terms of the segment contributions from the different divisions in Q3, what we saw was obviously that the RAROC came down in both consumer and consumer financing and commercial banking. And this was made up by Itau BBA, really, which came through very strongly. Is this mainly really a one-off on the Itau BBA side? Because I saw clearly that there was some reversal of provisions going on there. Or can we expect a sustainable high ROE coming through from Itau BBA going forward in the kind of mid-20s? Thank you.

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

So starting from the costs, you are right, Victor. We are expecting to remodel 600 branch. It's -- if we take the total costs we had during 2010 regarding migration, we are talking on close to BRL1 billion to migrate (1,200,000) branch and some other customer services branch. If we just use the average cost, it would represent something close to (BRL800,000) and we think that should be maybe 50%, 60% of this when we talk on remodeling branch at the maximum. So by calculating 600 branch, remodeling should be maybe one-third part of the total we had this year or close to that. It's a figure that we don't have accurately. But it should be close to maybe one-third the total costs we had in 2010 -- one-third, 40%, close to that. I'm having to -- Hogi -- in order to address the other question on Itau BBA.

A - Zacha Hogi

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Hi. In fact, we had some positive numbers in provisions this quarter. We might -- that was a result of, basically, of negotiations from transactions during the crisis during 2008, 2009. We are still in this process. So we might expect another quarter with some reversals. But basically, this is not a one-off. But maybe a two-off or three-off event. Not only because of renegotiations. But also because of upgrades in ratings. We are in the part of the cycle in which we are recovering from the crisis. So we might expect some increases, some upgrades in ratings going forward. I would say that next year we should go back to our normal level of provisions.

Q - Victor Galliano {BIO 1517713 <GO>}

Okay. So you can expect a sort of more normalized return coming through, RAROC of around 20%, maybe, for Itau BBA in 2011?

A - Zacha Hogi

Yes. Yes.

Q - Victor Galliano {BIO 1517713 <GO>}

Thank you.

A - Zacha Hogi

Obviously, during the second semester of 2008 and 2009 we had large numbers of provisions that we do not expect unless we have a new crisis. But this quarter was an exception. We might expect another quarter with good numbers, positive numbers and provisions. But -- and then we go back to our historical returns.

Q - Victor Galliano {BIO 1517713 <GO>}

Okay. Thank you.

Operator

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

Q - Marcelo Telles {BIO 3560829 <GO>}

Hello, everyone. My question is regarding costs. You are finalizing on the integration of Unibanco and I was wondering if there are any additional cost-cutting initiatives that you could put in place in this next year in order to further your operating expense line. Thank you.

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

Yes. We have some other initiatives in cost cutting. We have efficient -- what we call here project efficiency. It's a similar initiative we had in Unibanco some years ago. I remember I had talked to you on that. And our forecast is that we should reach 40%, 42% in terms of efficiency ratio within three years. So by the end of 2013, we should be close to 40%. That's our target.

Bloomberg Transcript

Q - Marcelo Telles {BIO 3560829 <GO>}

Alfredo, thank you. And if you'll allow one more question, you said earlier that you expect 15% equation in loan portfolio in 2011. I know that the budget has not been finalized yet. Could we see that 15% as a floor in terms of loan growth because one of your competitors mentioned that they're expecting around 15% to 20% loan growth in 2011? And which segments would be the main drivers for next year? Thank you.

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

Well sectors similar to those of -- from this year with some -- with some highlights to mortgage that should be at the same path. I'm referring to 50% growth. SME should be also very high. And I agree with you that we could consider 15% as a floor. We have not finished our studies for next year. And you know that traditionally we make public our guidances for the entire year by the end of the first -- by the end of the annual conference calls. So at that time, we should come up with a more precise figure. But I agree with you. It tends to be 15% as a floor.

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. Most of my general questions have been answered. But maybe some more detailed ones. Specifically, we saw your other operational revenue line come down by approximately BRL260 million quarter on quarter to BRL94 million. Big decline. If you can give us some color on what was driving that, if there's anything specific that we should be aware of. And secondly, in Itau BBA, if you can talk to us a little bit about the positive provisioning line. We had a positive contribution or a reversal of provisions in the quarter. If you can give us some details there. Thank you.

A - Rogerio Calderon

Jason, Rogerio speaking. Other operational revenues -- if we don't have a recurring level for this line and I think it was maybe too high and too low. Now maybe if you want to make any calculation and if you take a longer series, you are going to end up with maybe 150, 120 as the average behavior in this line. But as I should highlight, that is really very erratic because it is a (thunderous) type of line. So it's quite difficult to make any modeling on that. But if you want to consider, I would suggest around 150, 120 similar. Hogi, could you address --?

A - Zacha Hogi

As I mentioned, this number comes from negotiations after the crisis and the business cycles. It doesn't come from one company or one transaction or a few transactions. It comes from different transactions coming from 2008, 2009. And we might expect some --

another positive number, maybe, or a close to zero number in the next quarter. But it will finish eventually. We will have some -- we will continue to have some rating increases. But we might go back to our usual returns.

Q - Jason Mollin {BIO 1888181 <GO>}

That's very helpful. Thank you.

Operator

Excuse me. (Operator Instructions) Our next question comes from Mr. Larry Vitale from Moore Capital.

Q - Larry Vitale

Yes, hi. Thanks. I notice on page 18 of the slides you've changed your capital allocations around by division. And the one that stands out to me is in the commercial bank. I'm wondering if you can tell us why you've allocated another, what, BRL2.8 billion, BRL2.7 billion or so to the commercial bank. Thank you.

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

Larry, we actually made a change of criteria from the second to the Third Quarter. Expected loss was considering a different way to allocate capital. That's maybe the reason of this major change.

Q - Larry Vitale

Okay. All right. I look forward to -- it's probably too long now. But I look forward to sitting down with you guys and understanding your reasoning behind this a little bit better.

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

Absolutely.

Q - Larry Vitale

Yes, okay. Great. Thanks.

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

Thank you.

Operator

Excuse me. Our next question comes from Mr. Victor Galliano from HSBC.

Q - Victor Galliano {BIO 1517713 <GO>}

Yes, hi. Just coming back to the credit quality questions, you show there on page 11 the very positive trend, obviously, in MPL ratio and also the new MPLs forming. Do you think

we're kind of hitting a floor here in terms of the new MPL formation on a quarterly basis? And realistically, overall, what -- do you have any expectations, can you give us any guidance into 2011 looking at credit quality, where you expect that overall MPL ratio maybe to be at the yearend or mid-year 2011?

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

Well Victor, I think we should address in two different ways. Macro economically saying, yes, we think that this is the end of the cycle. But as we are changing our portfolios, the mix of our portfolios, we could have some additional change in this overall picture, particularly when referring to individuals in the downsides, in the better sides. And if you look towards companies then should be on the contrary because we are moving to high-risk portfolios. But macro economically saying, that should be the end of this cycle.

Q - Victor Galliano {BIO 1517713 <GO>}

Okay. Thanks. But you could get a little bit more benefit from your change in mix in the consumer side is what you're saying.

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

In individuals, yes. But it should be marginally.

Q - Victor Galliano {BIO 1517713 <GO>}

Okay. Thank you.

Operator

Excuse me. 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, all for the participation in this conference call. I think we could be able to show you very strong results, very strong numbers, especially coming from clients that would give us the confidence that we are in the correct way. And we will continue to grow the bank, especially here in Brazil. As we said, very good opportunities, due to the growth of the economy in the coming year. Thank you. And we'll be together by the beginning of next year to the Fourth Quarter and annual results. Thank you.

Operator

Thank you. That does conclude our Itau Unibanco Holding Earnings Conference Call for today. Thank you very much for your participation and have a good day.

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