Itaú Unibanco Holding S.A.
Teleconferência Nacional
Resultados do Terceiro Trimestre de 2014

05 de Novembro de 2014

Operator: Good morning, ladies and gentlemen. Welcome to Itaú Unibanco Holding conference call to discuss 2014 third quarter results.

At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session and instructions will be given at that time. If you should require assistance during the call, please press the star key followed by zero. As a reminder, this conference is being recorded and broadcasted live on the investor relations website at www.itau.com.br/investor-relations. A slide presentation is also available on this site. The replay of this conference call will be available until November 11th by phone, on +55 11 3193-1012 or 2820-4012 – access code 1599139#

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 that 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 São Paulo are Mr. Alfredo Egydio Setubal, Executive Vice President and Investor Relations Officer; Mr. Caio Ibrahim David, Executive Vice President and CFO and Mr. Marcelo Kopel Corporate Controller Director & Head of Investor Relations.

First, Mr. Alfredo Setubal will comment on 2014 third quarter results. 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.

Mr. Alfredo Setubal: Thank you. Good morning for those who are in the U.S., good afternoon for those who are in Europe. It's a pleasure for us to be here to comment about our third quarter results. For those who are following through the Internet, we are starting on slide number 2, the highlights for the quarter. First one, of course, is the result, the net income. The recurring net income of BRL 5.5 billion. We saw solid growth from the third quarter -- from the second quarter of almost 10% and 34%, when we compare to 9 months of last year.

These solid results provide recurring ROE of 24.7%, that is the biggest, the highest ROE in the last years, when we compare the quarters, with an increase of 100 basis points from the second quarter and 380 basis points, when we compare to last year. The better credit quality of our credit portfolio, we are also in the lowest level in the history of the Bank, 3.2% when we consider the NPL over 90 days. We were able to improve 20 basis points this quarter and 70 basis points when we compare to last year.

Margin with clients was also, again, a solid quarter. In terms of revenues from the operations, from our clients, both in terms of credit, in terms of services, BRL 13.3 billion in the quarter.

Financial margin with the market was the best quarter when we compare to the last 2 years. The conditions of the market and the positions that were taken, and the hedge and everything worked very well this quarter, even though the volatility of the local market and international market. But anyway, it was a quarter above the average - historical average was a very good performance for us.

Loan loss provisions at BRL 4.7 billion, with an increase of 6.2 billion - 6.2% when we compare to the second quarter. These increase in provisions were more related to the reclassification that were made in some large companies related to some sectors that are not performing very well in the economy. Where it was more related to these points in these companies, and it's not a trend in our view. It was more a point that we, in our analysis, required a little bit more provisions due to the reduction of our internal rating.

Fees and results from insurance. Also a good quarter. We continue to focus a lot in terms of fees and insurance products. The growth in the last 12 months of almost 15%. This quarter, 4%. If we do not consider the Credicard acquisition that was made last December, the growth in nine months to make things more comparable - would be 11.5%. So I think the strategy of growing fees is correct, and we are delivering a good growth in this line. In terms of expenses, BRL 9.8 billion in the quarter. We increased 1.8% and 10.8% in the year, in line with the guidance that we provided to the market at the beginning of the year, because of the acquisition of the Credicard bank from Citibank in December last year.

We are having more expenses, especially in technology. As we announced, we built a huge and very modern new data center, and we are running the Bank with 3 data centers at this point because we are just starting to transfer the systems slowly to the new data center. And that process, that will take more than 1 year. So in terms of expenses related to technology and to these data centers, we are going to have next year yet with some extra expenses. And probably, we are going to shut down 1 of these 3 data centers only in 2016-17. So we are going to carry some extra expenses in the coming quarters related to these.

If we not consider the Credicard to make things comparable, again, we can see that the growth of expenses were 7.6% in the quarter - in 9 months. But it's a little bit above the inflation index, 1%. But it is a good number when we consider all these extra expenses related to technology that we are incurring.

In terms of efficiency, we reached 45.5%. I think we continue to improve, in line with the guidance. The lower portfolio, due to the lower pace of the economy this year in Brazil in last quarter, the growth of the portfolio is not so good. We have 3.2% in the quarter, and 10.2% in 12 months. If we include the private securities that we carry, this growth would be 11.5% in 12 months. But the economy is not performing very well. So the credit portfolio and our policies to reduce the risk appetite of the Bank in terms of credit expansion, I think, is in line with the strategies, the results, the growth of the credit portfolio.

On slide number 3, the results more open. I think we had a very solid operation revenues. BRL 23.3 billion in this quarter, with a growth of 5.4%. As I said, margin with clients was very good. The growth - what means that our core business is the business of the clients, is very solid and growing in a good place - in a good pace.

Margin with market. It was as I said, a very good quarter. It's difficult to forecast new quarters - coming quarters in terms of results from our heads and our operations in the market, proprietary desks and so on. But anyway, this quarter was very good. The second quarter was a good one also, but this was much better. It's difficult to forecast, as I said, the coming quarters. But the volatility of the market and our position provided these results this quarter.

Commission and fees. As I said, was a very good quarter. I think the strategy of the Bank in the last years to increase fees, and in terms of the acquisitions that we made in terms of Redecard, in terms of Credicard, I think is paying off, in terms of revenues and is also helping to reduce the dependence of our revenues from credits exclusively. So I think the strategy is good.

The result from insurance also was a good one. Before claims, BRL 2.4 billion, also in line with the strategy of growing in terms of bancassurance with products that we can sell through our branches, through our managers and through the internet. So I think we are concentrating more and more in these product lines. And I think also the results is appeared.
In terms of provisions, as I said we have an increase in provisions from loan losses, and more related to the reclassification of some clients from large companies in some specific sectors. So this is not a trend, in our view, in terms of increasing the loan loss provisions, but more related to these companies. Recovery of credits also was higher this quarter, also because we recovered especially one client, one large company. It also made influence in these numbers. But the trend is quite stable for the coming quarters in terms of recovery of credits, and the average that we had in the last quarters.

Expenses, noninterest expenses, BRL 9.7 million, as I said, a little in line with expectations, the guidance that we provided at beginning of the year. We will continue to be very focused in the coming years in terms of controlling and getting more efficiency, especially with the huge investments that we are taking in terms of technology, new systems, new data center. I think this will help to get more efficiency and reduce and control more the level of expenses that we have.

At the end, we have this recurring results of BRL 5.4 billion, was a very good quarter with a very good ROE. We can see the ROE trends in the next page. 2 years ago, before we changed the strategy of the Bank to reduce the risk of the credit portfolio and increase our revenue strategy in terms of services, in terms of fees, 19.3%. And this quarter, getting the benefit from this strategy, we achieved 24.7%.

In terms of loan portfolio on slide number 5. We continue to grow payroll loans and mortgages in line of the strategy of reducing the risk. In terms of payroll loans, we bought this quarter again BRL 4 billion from Banco BMG that was included in our JV with them. So part of the growth of this portfolio that achieved BRL 36 billion, with a growth of 21.9% in this quarter was related to this BRL 4 billion in terms of acquisition.

We continue to reduce the vehicle financing, 8% this quarter. At the end, it was BRL 31 billion, the portfolio. Just to remember that 2 years ago, or a little bit more, this portfolio was BRL 61 billion. So we reduced by half the car financing for individuals in these last years, in line with the strategy of reducing the credit risk.

In terms of companies, corporate continue to be our main driver in terms of growth, BRL 203 billion is our credit portfolio for large companies at the end of the quarter, with a growth of 3.7%. Even though these trends are not so good here, but we continue to believe that in this environment of low growth of the economy, it's better to provide credit to large companies than to small and very small. This segment of very small and very small companies are much more leveraged, and they suffer much more in terms of delinquency with a very low pace of the economy.

Latin America, we continue to grow. Here has also influence of the dollar, the real devaluation. But anyway, we continue to increase, especially in Chile, our presence in the large companies segment.

Private securities, BRL 33 billion. So at the end, we have a total credit exposure BRL 536 billion, with a growth of 11.5% when we compared to last year.

On page 6, we can see in a more visual way, the changes in the credit portfolio that we made in the last years. At the bottom of this page, we can see what made the influence in terms of financial margin with the clients that jumped from BRL 12.7 billion to BRL 13.3 billion. We can see here that the more calendar days provide more revenues accrued. Selic rate product operations also BRL 228 million - helped to improve this margin with the clients and the increase of the loan operations are BRL 144 million. So this is a breakdown of how we and why we increase the margin with the clients.

On page 7, we can see the net interest margin. We see that the Selic rates has been growing the last quarters, and we have an increase last week also. But in terms of gross credit spread, we are quite stable. The spread is stable. What is changing is that we are renewing our credit portfolio in higher rates than in the past. So that's why we believe that the net interest margin will remain in these levels for the coming quarters.

On page 8, financial margin with the market. We can see here the volatility of these results. It's difficult or impossible to forecast what will come in the coming quarters. But anyway, this quarter, specifically was the highest in the last 2 years. It was a very good performance from our structural and from our proprietary desk in terms of market.

On page 9, we can see the trends of our NPL over 90 days. When we compare 2 years ago, the number was 5.2%. We reduced 200 basis points in this period, with this policy of reducing the risk of the credit portfolio. In both individuals and companies, we were able to reduce to the lowest level ever in the history of the Bank and maintain a very good coverage ratio of 181%.

On page 10. Also in terms of credit quality, we can see the loan loss provision expenses is 4.5%, when we annualized to our total loan portfolio, a little bit of both in the last quarter in relation of this reclassification of credits in the large segment -- large company segment. In terms of the allowance for loan losses, we continue with a very solid level of provision, and we maintain BRL 5.2 billion in terms of extraordinary provisions.

On page 11. A good sign also in terms of credit quality. That's the index of 50 to 90 days NPL ratio, continuing reducing the level. We finished with 2.6%, a 10 basis points improvement when we compare to last quarter. What is a good trend for our next quarters in terms of provisions. We are not expecting provisions to increase much in the coming quarters.

On page 12, we can see here the commissions and fees in more detail. We continue to be very focused on products and services and insurance products to grow our revenues in these segments to reduce the dependency on credit revenue. So we continue to - we can see here that the improvement was in the last 12 months at 14.7%. If we not consider the Credicard acquisition that was made last December, as we grow to 11.5%, what is continued to be a very good number. So I think the strategy is continued to be correct.

On slide 13, we can see the breakdown between banking results and insurance results. We had BRL 5.4 billion in results of the Bank. From this, BRL 4.3 billion came from the banking operations and BRL 880 million came from the insurance business. And related to the allocation of capital, we can see the ROE of the banking operation was 25% and the ROE to insurance business, 78%.

On page 14, insurance operations in more details. I think we continue to increase the results for the fourth quarters in a row. I think the strategy here also is to concentrate more and more in bancassurance and in products that we can sell through our branches, through the Internet and to our clients.

In terms of - slide 15, non-interest expenses. As I said, we continue to be very focused. This year, we have more expenses. But anyway, if we exclude Credicard to make things more comparable, the growth was 7.7 - 7.6%, reasonably above the inflation, but in line with the extra cost that we are having, especially in terms of technology investment.

On page 16, we can see here the capital ratios. We are generating capital. Here was an exercise to see how we would be in terms of capital. We see disqualification of Basel III. I think here is not an issue. We are generating capital and often at this moment, of course, more than we need because the credit portfolio is not growing much. But anyway, we have to keep this generation of capital to face in the future when the credit portfolio will perform - will have a better performance, and also to be open to new investments opportunities that can appear to us.

On page 17, we can see the liquidity of our shares. BRL 830 billion per day, half-and-half between New York Exchange and Bovespa. And our market cap, close to BRL 200 billion.

So in terms of outlook. Here on page 18, we can see the outlook that we provided at the beginning of the year. We changed the growth of the loan portfolio that was then 10% to 13% at the beginning of the year. As the economy didn't perform very well, we will not reach these levels. And we announced to the market, 15 days ago, that our expectation now is below 10%, something around 8% in terms of the total growth of the portfolio for the full year of 2014. The others one we didn't change, the loan-loss provision net of recovery of credit between BRL 13 billion and BRL 15 billion. We've maintained this. Service fees and result of insurance, 12% to 14%. We also maintained this range.

Noninterest expenses, 10.5% to 12.5%. Also, we maintained this level of expenses. And efficiency ratio, improvement from 50 to 175 basis points. Also, we keep this for the full year of 2014.

On slide 19, we can see the strategic agenda, bancassurance concentration. As I said, in terms of insurance - and we sold to the large risk business, to ACE and was approved last month by the regulators, and this was finalized by the end of last month.

And also, we announced the termination of the agreement that we have with Via Varejo to offer extended warranty in the retail network of Ponto Frio and Casas Bahia. And we recovered part of the investment that we made upfront with them.

In terms of CorpBanca business in Chile, the merge between Itaú Chile and CorpBanca. We have the approval of the Central Bank of Brazil. And now we are waiting for the next step in terms of approval from Banco Central de Chile and Colombia. And we expect these to be finished in the first quarter of next year. In terms of mortgage and payroll business, we keep our leadership among the private banks. What for us is important because of these 2 lines of credits that we are growing more in this strategy of reducing the risk of the credit portfolio.

And to finalize, for those who will be in Brazil in the coming weeks, we have a public presentation of Itaú Unibanco in Brasilia on November 12th. And also, our main event with investors and shareholders, that is our public presentation of São Paulo on December 16th. And everybody who can be here in Brazil will be a pleasure to receive you there in these both of these presentations. This finalize our first part of the conference call, and now we are open to the questions.

Q&A Session

Operator: Ladies and gentlemen, we will now begin the Question and Answer session. If you have a question, please press the star (*) key, followed by the one (1) key on your touch-tone phone now. If at any time you would like to remove yourself from the questioning queue, press star 2.

Our first question comes from Philip Finch with UBS.

Philip Finch: Good afternoon gentlemen. Thank you for the presentation and the opportunity to ask some questions. First of all, can we just start macro wise, what are your forecasts internally for GDP growth next year and the Selic? And related to that, what should we assume in terms of loan growth for you next year? Clearly, it's slowing down. Should we assume that trend continues next year? And secondly, just in terms of the cost expenses, which you very helpfully explained. There were some distortions from the Credicard acquisition. But given the IT expenses and the data centers, you're still going to have 3 or 4 for the next year also and it won't come down to 2, should we assume that cost growth should remain above inflation next year? Thank you very much.

Marcelo Kopel: Hi, Philip. It´s Marcelo. Good afternoon. Regarding our view on the macro, what we have for GDP next year is a 1.3% real growth. Selic, we envision finishing this year at 11.5% and next year at 12%. In terms of our loan growth, we're still wrapping up the - our budget process. But as of now, it should be close to nominal GDP plus something. So that's where we are at the moment. We're going to be finalizing that and give you more transparency over the fourth quarter earnings call. Regarding IT expenses, you mentioned the data center, which was mentioned by Alfredo. Our aim is to grow at inflation or inflation plus. So you may consider a small plus over inflation, given the data center investments. But that shouldn't be a meaningful - but that shouldn't be a meaningful number, that plus that I mentioned to you.

Philip Finch: Thank you very much Marcelo, that was helpful.

Operator: Our next question comes from Tito Labarta with Deutsche Bank.

Tito Labarta: Hi, good morning, good afternoon in Brazil. A couple of questions. First in terms of your net interest margin. You mentioned you'd expect it to remain relatively stable, as you have been able to increase the spreads on some of your loans. About the recent increase in rates and you just mentioned you expect it to reach - to continue rising to next year. Do you think there could be any upside to that? Or what will be the sensitivity to the rising at Selic? And then the second question, in terms of the asset quality, you continue to deliver pretty good results there with asset quality still improving. At what point do you think that could start to shift and you could see some deterioration? I mean is that maybe end of 2015, or do you think you could still see some further improvements? I just want to get a little more color on how you see asset quality continue to evolve. Thank you.

Marcelo Kopel: Thank you, Tito. On NIM, our view is that it should remain relatively stable, given the different moving parts we have on that by, let's say, renewals coming at a higher rate than the previous rates. But the mix shift is still playing a very important role, given the growth differential that you have between the different portfolios. So that's something that should keep it relatively stable. You mentioned the Selic rate, the market now is very competitive. The price dispersion that you see between banks has reduced. So we don't see much room for having - you could see increase in rates, but not necessary increase in spreads, given the competitiveness of the market. So that's where we are regarding the Selic rates. Unless, we see, let's say, a meaningful deterioration where we basically, we're going to be risk adjusting the price to reflect that. But that doesn't change our risk appetite. So for that end, we should - don't see much change on the rates other than our own cash, which, obviously, benefits for the Selic rates. Regarding asset quality, you asked at what point we could see a shift. I mean, the shift on the economy - we are, let's say less correlated to the economic environment now because of the mix shift. That should probably continue towards next year unless you see a major disruption, which is not our base case scenario. But you could see that changing towards the end of 2015, and starting 2016. Meaning that we're going to more pegged - our, let's say, credit performance will be more pegged to the economy than it is now because of the mix shift that we have.

Tito Labarta: Thank you. That was very hepful.

Operator: Our next question comes from Carlos Macedo with Goldman Sachs.

Carlos G. Macedo: Thank you. Good afternoon gentlemen. Alfredo, Marcelo, I have a couple - one question, actually. I mean, looking at your ROE, almost 25%, it is about as high as it's been in the last several years. And the outlook that you laid out with a weak GDP growth, higher rates, your margin is looking as they were going to be flat throughout the year. Maybe you don't get the tailwinds from provision expenses that you had in the last few -- in the last several quarters. When you put all that together, it does look like earnings growth is going to be weaker next year than it was this year, maybe 10% to 15%, something like that, which probably leads your margins to - or your ROE to contract from where it is now, given it is at a very high level. Is there anything the Bank can do, I mean, on the expense side, on the fee side or generally, to sustain that kind of growth that we've seen from earnings? I mean, potentially, if you do get some pressure on NPLs, it could be even lower than that. But is there anything the Bank - any levers the Bank can pull outside of the - of what's pushed by the economy to sustain the level of growth in earnings?

Marcelo Kopel: Hi, Carlos. Thank you for your question. I mean, if you think that the - if we say that ROE, let's say, just for argument sake is 24%, okay? And we pay 1/3 of that as dividend, so you're left with - we pay 8% out of the 24% ROE, so we are left with 16%. So anything on earnings growth below 16% will be a, let's say, a reduction in our ROE, so it's just to work the math. So basically, we are focusing on all the levers that you mentioned. On costs, we are focusing on increasing our services to our clients. The quality of the asset portfolio is helping us, the credit portfolio is helping us. But net-net, what we could see - another avenue that we can see of growth is insurance. We're underpenetrated on insurance. But given the participation of insurance in the overall results, it's hard just to say that we're going to sustain the entire ROE or even grow the ROE based on that. And you correctly mentioned about the tailwinds we had on credit this year, which is something that is unusual for you to grow the portfolio, increase revenues, take less risk and reduce your credit cost. So it's a - let's say, it's something that we would focus to do on the different levers. But it's hard to expect the ROE to be kept at nearly 25% next year.

Carlos G. Macedo: So, I mean, it would be reasonable to say that we are at the pick of the cycle here, and I am not talking specifically about Itaú necessarily, because some of your peers have had the same kind of behavior in terms of NPLs and - you are probably better, but, NPLs and margins.

Marcelo Kopel: Yeah, you could say that a high point of our, let's say, historical path, I hope I am wrong, but that's the alignment of several positive factors that we have in this quarter. But net-net we still are confident that we are going to be delivering ROEs over the course of next quarters over 20%, 20% plus.

Carlos G. Macedo: Perfect. A follow-up to that is - the scenario that you outlined is generally aligned with the market consensus for next year. You were talking about being a little bit more - less pro-cyclical than in the past. How does that relationship evolve over time? Are you really - what is - if GDP growth slows to less than 1%, say 0.5% next year, if we do see unemployment climbing up from 4.5%, 5% to 6%, 6.5%, is Itaú really that protected from a negative environment or a more negative environment than is currently expected?

Marcelo Kopel: Carlos, all the preparations, everything we started 2.5 years ago in terms of the derisking, the less dependency on credit revenue by means of increasing fees. Everything was done to make the Bank more resilient to, let's say, a downturn scenario. You could see upticks on, let's say, on certain credit lines like credit cards or overdrafts line, which basically what we spoke I think in the second quarter. But the overall portfolio, to some extent, and I'll give you the auto financing portfolio as an example. Our NPLs in this portfolio are going down, even though the portfolio is reducing. So it's hard for you to reduce the NPL when you're reducing a portfolio. And now NPLs are going down there. So we - to some point or to some extent, we believe we can shelter the pressure but we'll only know when we get there. And unfortunately, that's as much as we can give you in terms of clarity. So let's say, lots of moving parts. And now to some extent, we believe we are sheltered. But we'll see.

Carlos G. Macedo: Ok. Thank you Marcelo, thank you for your answer.

Operator: Our next question comes from Mario Pierry with Merrill Lynch.

Mario Pierry: Hi, good morning everybody. And congratulations on a very strong quarter. Let me ask you 2 questions. The first one is related to fee income growth. Excluding the acquisitions that you made, when we look at current account fees and loan operations, they are still growing close to double digits. So I wanted to understand from you is your ability to increase prices to sustain fee income growing at a double-digit pace in the future? And if you could also comment on Redecard. It seems like Rede finally was able to gain market share from competitors for the first time in almost 2 years. If you could tell us more about your strategy in Redecard going forward? And then I'll ask a second question later.

Marcelo Kopel: Thank you, Mario. In terms of fee income growth, the big growth this year hasn't really come from increasing prices, but basically, the increase of services offered to clients and a large number of the clients buying into the new services that we are providing. We have differentiated services on Uniclass. We have MaxiConta with cellular - with credit on your prepaid cell phones. We have a number of new packages and offers that clients did sign up for that. So basically, that's where the increases are coming in current accounts. Insurance also is an avenue of growth for the following year. We mentioned bancassurance, and that's a very promising area for us. So part of the strategy is to continue to focus on that. Obviously, the credit card market is something that is probably going to be growing mid-teens next year. And 1/3 of our fee lines comes from credit cards. And that doesn't include the interest on non-credit cards. But also, only includes the MGR from the acquirer and the interchange that we - and the annual fees we have on the issuing side. So payment is an avenue that we will continue to grow. And the economy is still going to be moving, and we are benefiting from that end. So if the fee growth next year is not something at mid-double-digits, it could be at least very low double-digit, so a high single digits, okay? Regarding your question on Rede that we might have gained share, the strategy has been since the delisting of the company, to have the Bank working closer to Rede. Now we can see this crystallizing by the Bank being closer. The new segmentation that we have on small companies, where these companies are being serviced in our branch network. So that brings the Bank closer to the acquirer. The number of affiliations of the Bank nearly doubled in the last 18 to 12 months. So Rede has been gaining ground and traction with the Bank, and that is reflecting in, let's say, more activation and more volume. So this is something that should continue, and that was the primary objective of having Rede as part of the group or fully owned by the group, which is to be able to have a holistic approach to the clients.

Mario Pierry: Okay. That was very thorough. Let me ask you then my second question is with regards to costs. But here, my concern is more like we continue to see a very weak economic environment. We're seeing the loan growth decelerating, and it seems like you are not too excited about loan growth next year either. So I just wanted to get from you about how comfortable are you with your current headcount? Or is there room for you to be reducing the headcount in the coming years if the economy doesn't improve?

Marcelo Kopel: Mario, we manage - we don't have like targets for headcount. I mean, we manage the Bank based on being able to produce more with the - and gain efficiency. So based on the churn that we naturally have out of the Bank, we're able to manage the headcount. And if we have to manage the headcount down it's not going to be by a major restructuring, by proactively managing the turnover. And the people who can be retrained, we retain them. We have a high rate of people who are retrained and relocated within the Bank. But that gives us a buffer to manage, let's say, the Bank in more difficult times if we have to manage down the headcount. But there is no restructuring program in place that we'll need to do it.

Mario Pierry: Ok. Thank you very much.

Operator: Our next question comes from Marcelo Telles with Crédit Suisse.

Marcelo Telles: Hi, good afternoon. Hallo everyone. Thanks for your time and congrats on the results. I have 2 questions. The first one, was there any impact in your results resulting from the depreciation of the real or you were like pretty much hedged and there was no impact at all? And the other question is regarding your provision expenses for the quarter. We saw there was quite a bit of an increase in provisions in the wholesale division of the

Bank, which would indicate something in line what you just - what you said about some specific, corporate loans that had to be provisioned for. So do you think we can see, let's say, an improvement in provisions in the wholesale division in the coming quarters, or do you expect those provisions to remain more or less at the same level? Thank you.

Marcelo Kopel: Telles, thank you for your questions. We have no impact of the real depreciation. I mean we were fully hedged on that. So it's no material changes in our number regarding that. Regarding the loan loss increase in wholesale, as Alfredo mentioned, we did change the rating of certain corporate names. No concentration on any specific economic sectors. And, I mean, given the circumstances and what we see in the economy, this could happen in some names, but nothing that you could see as a trend. So net-net, we'll be managing the portfolio and keeping an eye on if there are specific loan-loss increases that we need to do punctually or specifically, we will do. But in our radar screen, that was something that was done specifically in this quarter. But we are, let's say, vigilant regarding any specific change that needs to be done.

Marcelo Telles: Perfect. Thanks a lot Kopel.

Operator: Our next question comes from Saul Martinez with JPMorgan.

Saul Martinez: I just have a couple of -- one follow-up question and one other question. First, Marcelo, you mentioned in your earlier remarks that your asset quality has become less correlated to the economic environment due to mix shift. And obviously, that's - it's obvious that, that seems to have occurred. But that it could change at the end of 2015 or 2016, and start to become more pegged to the economic cycle. Can you elaborate on that? I mean, it's not clear to me why that would be the case, especially since the mix shift process should continue as we head into next year. If you can just give us a little bit more color there. And secondly, the payroll loan book is growing tremendously, it's bigger than your mortgage book, it's bigger than your auto book now. Obviously, the BMG partnership has helped. But is there any difference at all in terms of economics, the profitability of acquired loans from that partnership relative to payroll loans, for example, that you may originate yourself? Can you just give us a sense of whether the economics are also attractive especially considering this is a product with very high risk-adjusted margins?

Marcelo Kopel: Thank you, Saul. Let's start - let's answer it backwards in terms of the payroll. Payroll is, as I mentioned, is key to our strategy. The difference in economics is basically if consider that we have, let's say, 2 types of originating channels. One through our branch network, and the other one through the joint venture. In throughout our branch network, basically, we have the branch costs and basically, we dilute the costs by originating the credits there. So the profitability of a loan, even if you do the proper cost allocation, which we do, for our own origination is better than originating through third parties. The risk is quite similar because the approval - the credit approval process is the same. Okay. So on a net basis, when you originate through our own network, you get off. So that's the comment regarding payroll growth. Regarding the asset quality and being less correlated, the fact that I mentioned that is because when we are outgrowing on a portfolio like payroll, let's use that for as an example, and even mortgages. They will now - it is around 85% of that is related to the public sector, be it retirees or be it public servants. So that where I'd say it's less correlated because those segments are not affected by unemployment. And when you look at the mix shift and you see that portfolios that are more prone to be affected by the economy, like unsecured lending and SMEs, and so on and so forth, the difference between the speed of growth between those 2 portfolios end up being less correlated to the economy, that's where my comment came from. So as we go deeper on that, eventually, we will become more correlated to the GDP. But obviously, our best case scenario is there is no disruption in the economy. If we were to have a disruption, then the correlation will, obviously, will come into play. But we don't have a disruption scenario for next year.

Saul Martinez: In other words, it becomes more pegged if we see a disruption or if we see a real sort of stress scenario for economic conditions.

Marcelo Kopel: Yes.

Saul Martinez: Okay. And just - okay, then fair enough. And then the fourth - so just to elaborate on the first answer I should say, on the loan origination versus the BRL 4 billion. The BRL 4 billion that you acquired, can you give us a sense of how different the economics are between those - the acquired portfolio and other - are these still very profitable types of loans that your acquiring because you are obviously growing that book very, very quickly?

Marcelo Kopel: So what I can give in terms of color is the average commission that you probably see over the term of a loan acquired through a third party is around 15%, okay? So to the extent, I find a way of doing this acquisition through our network under that number. We are becoming more, in a way more efficient. So this is just to put you in perspective. So - and remember, the branches there as our window to be distributing and offering services to our clients, multiple services to our clients. So it's really the more efficient we get in terms of targeting our clients, the less we're going to spend on this, let's say theoretical, 15% that we have to spend to make economic equal.

Saul Martinez: Ok. Thanks, that´s helpful.

Operator: Our next question comes from Boris Molina with Santander.

Boris Molina: Yes, good morning, thanks for taking my question. I have a few questions. The first one regarding the progress in your acquisition of Corpbanca. Could you confirm if you are currently in negotiations with the IFC to amend the shareholders agreement? Or is the only authorizations for you to close the merger are related to Central Bank and regulatory approvals?

Marcelo Kopel: Boris, IFC is doing its homework now. I mean, they have an agreement on the existing shareholders agreement with the current shareholder, and they are doing their homework in terms of doing valuations. And we're basically - if there are - if there is information that they asked us, we provided that. So they're following their own course there, and we are confident that the deal provides benefits to all shareholders, including obviously themselves. So I think we're going to get closer on that. Our scenario in terms of approvals, we just got the approval from the Brazilian Central Bank for the - to be participating on the merger, have a stake in the merger, a controlling stake in the merger. And we're seeing - we still need to go through the approvals of the Chilean regulator and Colombian and Panama. And now as it comes to the shareholders meeting, where the shareholders of both ends need to approve that. So our estimated, closure for the transaction is first quarter 2015.

Boris Molina: Okay. Wonderful. And I had a second question regarding the slide on your presentation about the evolution of the capital ratios under Basel III. You show a 100-basis-point improvement from the use of tax loss carryforwards. Is there any change in regulation or and taxation that would allow you to avoid having tax loss carryforward in the future? I mean, over the last years your tax loss carryforwards have been around between 6% and 7% of your shareholders equity, and this is a - kind of it's like a nature of life. So are these going to disappear completely?

Marcelo Kopel: No, it's not that it's going to disappear quickly. The assumption there is if we are to consume everything we have - and just keep in mind that at the same time, we are consuming that, we are also having the benefits of some goodwill amortization for tax purposes. So over time, as we don't have all the goodwill amortization tax benefits to be consumed, the ability to consume the tax loss carry forwards makes it - becomes easier than having to eat into the tax loss - the tax shelter we have from goodwill and the tax loss carry forwards.

Boris Molina: OK. Wonderful, thank you.

Operator: Ladies and gentlemen, as a reminder, if you would like to pose a question, please press the star (*) one (1).

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

Alfredo Egydio Setubal: Thank you, everybody, for participating with us. At this point a very good and solid results. Marcelo answered all the questions that you had. We were able to attend everybody. So thank you for your participation, and wait to see you again in the fourth quarter results at the beginning of next year. Thank you.

Operator: This concludes Itaú Unibanco Holding earnings conference call for today. Thank you very much for your participation. You may now disconnect.