

**Operator:**

Good morning, ladies and gentlemen. At this time we would like to welcome everyone to Banco Sofisa's 2Q10 earnings conference call. Today with us, we have Mr. Ricardo Simone Pereira, CFO and Investor Relations Officer, and Mr. Gilberto Meiches, President of the Bank.

We would like to inform you that this event is being recorded and all participants will be in listen-only mode during the Company's presentation. After the Company's remarks are completed, there will be a question and answer session for investors and analysts. At that time further instructions will be given. Should any participant need assistance during this call, please press \*0 to reach the operator. There will be a replay facility for this call for one week.

Before proceeding, let me mention that forward-looking statements are based on the beliefs and assumptions of the Company's management and on information currently available to the Company. They involve risks, uncertainties, and assumptions because they relate to future events and therefore depend on circumstances that may or may not occur in the future. Investors should understand that general economic conditions, industry conditions, and other operating factors could also affect the future results of the Company and could cause results to differ materially from those expressed in such forward-looking statements.

Now, I will turn the conference over to Mr. Ricardo Pereira, CFO and Investor Relations Officer, who will start the presentation. Sr., you may begin with your presentation.

**Ricardo Pereira:**

OK. Starting again, welcome everybody to this conference. We are on slide two. We stated a substantial increase in earnings; as you can see net income for the 1H10, R\$37.2 million, a substantial increase over the same period last year, and the bulk of the results coming from this last quarter, R\$27.2 million. We also showed a trend of continuous growth increase in the SME loans, the focus of the Bank, 36% year over year and up 3.5% on loans directly to our clients on the last quarter.

There is also a good growth on time deposits, time deposits directly with our clients, an increase of almost 60% year over year and 7.6% only in the last quarter. We concluded the sale of the origination platform of consumer finance. So now we have a focus only on the SME segment that is the core business of the Bank. So, this was concluded also this quarter.

In terms of the operating context, margins are relatively stable at 9.1%, net interest margin, this quarter, compared to 9.6% last quarter. Administrative expenses are slightly up, mainly due to the conclusion of this transaction. We will get into detail soon, but 4.9% above last quarter, non-recurrent almost, and 10% over year over year. We have also an increase due to the speed of growth in our time deposits, as you saw above, stronger than the portfolio growth. So we have free cash of R\$1.3 billion; it is a very comfortable level, to say the least, 55% of total deposits, and the provision for loan losses is 4.8%, slightly above the levels we have seen last quarter.

So, moving to slide three, we show as we discussed a moment ago, R\$27 million on this 2Q, and if we exclude the profit sharing, R\$32 million.

On slide four we make a comparison between the speed of growth of our own portfolio compared to the average of the market, as stated by the Brazilian Central Bank. So, Sofisa is growing in our core business at a pace that is almost double the growth in the industry average.

And on slide five, next slide, we show that we are growing in sectors that we know better and that are more fit to the way we operate, which is the industrial sector, where we have a growth substantially above average. A slight growth of Sofisa in terms of profit share of our portfolio, but on commerce as well, and last in services. So, the focus of the Bank that is working with SME clients that can provide us with collaterals, naturally the sector that we have more participation is the industrial sector, and that has not changed in this quarter.

When you look at the total portfolio, we see that the total portfolio is slightly below what we posted in the last quarter; that is due to the fact that from mid May on we are not originating consumer-finance transactions anymore. So, the growth is coming obviously from the SME sector, but we have a natural reduction on the consumer finance portfolio.

And below we see the level of provisions we have shown before, quarter over quarter and over last year, with an increase and then a stabilization. Already we are seeing stabilization in this quarter.

When we go to page seven we see the SME portfolio. The prospects for growth in this portfolio are very good. We know that we work in an SME segment that is becoming ever more hot in Brazil now, with Brazil growing. The sector grows at a multiple of the GDP, so we have opportunities to grow in this segment. Our own forecast for growth, for you to know, is to grow this portfolio 12% in the 2H.

The 2H, because of the end-of-year sales, is naturally a time of the year that the portfolio of Sofisa would grow more. We have more collateral coming from our clients. But now only that, not only the growth of Brazil, the growth of the segment, but also we can gain market share because we are extremely focused on increasing this portfolio. We are investing in training, in team building, on improving techniques on the sales front. We are increasing investments in the IT front also to gain agility in our platform, and we add to that that we have a competitive market that works with guarantees, a competitive market where we work more with collaterals than the others, we see that 12% is a very feasible number and we are confident we can achieve this type of growth on the 2H10.

In slide eight, you see that we continue to have a very diversified portfolio, which is also in line with our guidelines. The largest debtor represents only 0.9% of the total loan portfolio, 3.8% of the shareholders' equity. We have 93.3% of the loan portfolio highly rated, AA to C. 68.8% of the transactions have a maturity that happens in less than 1 year, so we also have a very comfortable asset liability management from this perspective.

On slide nine we show the way the Bank does business, which is lending with collateral. That is also very particular of Sofisa, having such a high ratio of collateralized loans in the portfolio. We have the same number as last quarter, 98%; the portfolio is growing. The SME portfolio is growing and you can see that clearly when you see the very liquid domestic invoices, "duplicatas", where we have an

increase in participation in the grade of collaterals that we have, and we want this to grow even more.

So, nothing changed here. When you see this type of collateral, the way the Bank works, on page ten, you see the consumer finance portfolio, sorry, on page ten the consumer finance portfolio. You have a natural decrease there; we have originated, as I told you, up to May 14<sup>th</sup>, and from then on we stopped originating. So, the portfolio will slowly come down, and we have the forecasted projections of this portfolio right below, coming down to R\$1 billion in the end of December 2010, and reducing R\$200 million average in the next year. We saw a reduction in the level of provisions that we had to make on this portfolio, down from 5.7% to 4.6%. It is more in line with the original projections we had for this portfolio.

On the funding side, as I said before, it is a very comfortable situation, with a strong increase in time deposits with our clients. Not only that, but we have this insured deposits limit with the Brazilian equivalent of the FDIC, which is also huge. It is bigger than our current time deposit base, it is R\$ 2.5 billion that we have untapped, that we could use if needed and sometimes we use to better match the portfolio.

So, as the liquidity, as you can see in the next slide, is very high, R\$1.3 billion free cash, it is more than what we would need, but again it is explained by the fact that our time deposits grew more than the loan portfolio. It not only grew but it grew in favorable terms for the Bank, in terms of the ALM, asset liabilities management perspective with longer maturities. So when we make calculations of the Basel III, LCR ratios, liquidity coverage ratios, actually we are prepared to grow the portfolio even in the event of the crisis. This level of cash and the maturity and the profile of the funding of the Bank allow us to grow the portfolio, or keep lending even if there is a crisis as severe as happened in 2008. So we are in a very good shape, very strong footing here to grow the portfolio from the funding perspective.

And you can also see that on slide 13 where we have the strict guidelines for what people are calling now net stable funding ratios, so the matching of the long-term asset and liabilities, we have a very favorable match there as you can see on slide 13, we are also paying attention to that.

Looking to the administrative expenses, here we have not yet seen the actual impact, the final impact of the sale of the structure that originated consumer finance. So we can expect going forward a reduction of about R\$2.5 million per month on administrative expenses due to the fact that we are not having these expenses related to originating consumer finance. Because we concluded the transaction in mid-May and we have to pay, obviously that are embedded in these expenses some expenses on the transaction and severance expenses to people that left the Bank, we still do not see that effect but it will happen surely it will be very clear going forward in the next quarters.

To sum up the profitability indicators, we have this ROAE of 14.4% annualized in the 2Q, the efficiency ratio also better at 44.2%. We have also a strong distribution of dividends or interest on capital in Brazil that is 10.4% dividend yield, which we could do because we had results in 2007, 2008 and 2009 that were not distributed and we decided to distribute this year for the benefit of the shareholders, but it did not affect too much our Basel ratio with the prospects going forward.

We made a balance between the distribution to shareholders and the levels that we consider safe for the Bank in terms of Basel ratio, also not only in terms of the current Basel ratio but also prospective Basel ratio. Bear in mind that we are not originating customer finance loans anymore so this portfolio will be reduced with time as we just saw and it will be slowly and gradually replaced by the SME portfolio. So, there is not too much impact on the Basel rate going forward. We made all these projections and we could give a 10.4% dividend yield for the market this quarter.

In the next page you see the changes in the shareholders' equity and also you can see the effect on the provision on interest on equity. With this network here on page 16, on page 17 you see the Basel ratio at almost 17%, what we consider a very solid level. We do not foresee, as I was just mentioning, reductions from this point in the Basel ratio at least at the pace of growth in the loan portfolio that we discussed, and we 16.9% is very favorable and you know the minimum in Brazil is 11% and for us, what we consider a good level is a minimum of 15%, so a very comfortable Basel ratio position here.

And finally, on the ratings, we have the same ratings but for Fitch, which reduced our long term, it kept our short term on the strongest, but it reduced our long term from A+ to A. RISKbank, on the other hand, which is another agency in Brazil, took away its alert so in a way upgrading with a low risk. The others kept the same.

Having said that, we are open for questions.

**Operator:**

This concludes the question and answer session. At this time I would like to turn the floor back to Mr. Pereira for any closing remarks.

**Ricardo Simone Pereira:**

OK. Thanks everybody for joining the conference call. Just a remark maybe on some strategic perspectives, we are on track to grow our SME portfolio; we have as we discussed a moment ago the necessary and very solid funding base to do that; we are reviewing processes here to cut administrative expenses, to gain efficiency; and when we couple that with the fact that we work with collaterals, we generate more recoveries on credits that were already provisioned and when you couple that with the portfolio growth on the loan portfolio of 12% we see that the Bank is going to return to our projections here, our strategic planning.

We see the Bank returning to its historical profitability levels by the end of 2011 with already substantial increase in results in 2010. We are confident that we are working in a segment that is growing very well in Brazil. Sofisa has a platform that has been built over the last 20 years and that is very solid on collateral management, on understanding clients, on dealing with small clients and when we put together all these factors we will be gaining efficiency and coming back to the profitability we have seen in historical levels.

Thank you again. And, again, we are at your disposal, myself and Adriana here in the Investor Relations for any questions you may have, please, do not hesitate to call us. Thank you very much for participating.

**Operator:**

Thank you. This thus concludes today's presentation. You may disconnect your lines at this time, and have a nice day.

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