

Shares soar as Unibanco joins up with Itaú

Jonathan Wheatley in Sao Paulo

Itaú and Unibanco, Brazil's second and third-largest private-sector banks, are to merge to form the biggest bank in South America and one of the 20 biggest in the world.

Shares in both banks surged on the news, announced yesterday morning an hour before trading began on the Sao Paulo Stock Exchange.

Itaú's shares gained nearly 20 per cent during the morning and Unibanco's about 14 per cent before falling back, compared with a rise of just over 1 per cent for the main Bovespa index.

The first few minutes of trading were given over exclusively to shares in the two banks.

In a statement, the banks made only passing reference to the crisis on global financial markets, saying the merger came after 15 months of talks.

"This operation takes place at a time of great changes and opportunities in the world, particularly in the financial sector," they said, adding that Brazil's banking industry was "in a privileged position, with enormous potential to improve its situation even more in relation to the rest of the world".

However, analysts said the deal's timing was certainly affected by the current shortage of credit on global markets.

"There is no question over either bank's financial health, they are both very well capitalised with good quality loan portfolios," said an economist at a rival bank in Sao Paulo.

"But every bank in the world is facing higher funding costs. They had to act quickly.

"They knew they would preserve much more of their value [by merging now] than if they had fought on in difficult times for several months."

The economist said Bra-desco - Brazil's biggest private-sector bank before the merger of Itaú and Unibanco - would be looking for other banks to buy so as to regain its market leadership. "Consolidation is here to stay," the economist said.

There are more than 150 banks in Brazil, of which the nine largest - including three publicsector banks - have nearly 90 per cent of cash deposits.

There has been speculation for some time that either Bradesco or Itaú would buy Unibanco and that this would precipitate other deals.

Brazil's banking sector has been relatively unaffected by the global financial crisis. Only about 10 per cent of funding is sourced from international markets and total credit is small as a percentage of gross domestic product, at less than 40 per cent.

Regulations in the financial sector are strict.

Unibanco, for example, has a joint venture with the local unit of AIG, the US insurance company rescued from bankruptcy in September by the US government. The Brazilian unit has avoided its parent's troubles because Brazilian rules prevent investments in high-risk assets.

The banks said the new institution, to be called Itaú Unibanco Holding, would have 4,800 branches and other outlets, or 18 per cent of Brazil's banking network; 14.5m current account holders, or 18 per cent of the market; 19 per cent of credit in Brazil; and deposits, funds and assets under management equal to 21 per cent of the market.

Fonte: Financial Times, London, November 4 2008, Companies & Markets, p. 21.