International Conference Call
Itaú Unibanco
1st Quarter 2015 Earnings Results
May 6th, 2015

Operator: Good morning ladies and gentlemen, welcome to Itaú Unibanco Holding conference call to discuss 2015 first 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 May 12th by phone, on +55 11 3193-1012 or 2820-4012 – access code 8187089#

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. Eduardo Vassimon**, Executive Vice President, CFO and CRO; and **Mr. Marcelo Kopel** Corporate Controller & IRO.

First, **Mr. Eduardo Vassimon** will comment on 2015 first 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. Eduardo Vassimon**.

Mr. Eduardo Vassimon: Thank you. Be welcome. Good morning, good afternoon, it's a pleasure to be here with you today to talk about first quarter results.

For those that are following our presentation, please, go to **page 2**. We start with highlights of the period. The first highlight itself is the recurring net income, R$5.8 billion, 3% above last quarter – that was already a strong quarter – and 20% growth in 12 months. Recurring ROE close to 25% and credit quality measured by NPL 90 days is stable in relation to last quarter, 50 basis below the same quarter of last year. When we look at the shorter tenor NPL 15 - 90 days we see an increase of 40 basis points, there is here a seasonal element that we are going to see more during the presentation.

I'd like to highlight the strong the financial margin growth, financial margin with clients, 3% in the quarter. We had exceptionally high margin with market, R$1.9 billion in this quarter. We consider this as a non-usual event.

The same applies, in our opinion, to the level of loan loss provisions made in this first quarter, R$5.5 billion, 20% growth over last quarter. We also consider this as a non-usual effect number. We are going to talk more about that during the presentation.

And finally in this page I would call your attention to the reduction in noninterest expenses, 2.3% in this quarter. This is partially affected by seasonal effects.

Moving to **page 3**, we show that we have been able to deliver consistent recurrent ROE, above 20%.

On **slide number 4** we see the main lines of our PNL. I would call here your attention to the variations observed between the last quarter of last year and this first quarter. The main figure here is the increase in managerial financial margin, R$1.3 billion, due to an increase both in margin with clients and margin with markets. Margin with clients went up 3% in this quarter despite the lower number of calendar days, and margin with market, as already mentioned, was exceptionally high, close to, around R$850 million growth.

Another line that deserves highlight here is the increase in commissions and fees, 0.6% in the quarter, normally first quarter is slightly below the last quarter of the previous year. And then we have again here the loan loss provision expenses with a substantial increases of R$900 million, 20% over last year. We are going to talk more about that.

We see here also a decrease, a substantial decrease in recovery of credits, 20% in this quarter. This is due to two basic factors: one is a seasonal element here, and the second element is the more challenging credit environment.

Another line here I'd like to comment is retained claims, a substantial reduction of 26%, but this is positively affected by the fact that we have sold large risk operation last year. Altogether we produced a recurrent net income, again, 3% above last quarter and 20% in 12 months.

Moving to **page 5** where we have our loan portfolio, I would like to highlight here that main growth comes from two lines: payroll loans and mortgage loans. This is pretty much in line with our strategy developed already for a couple of years, moving to less risk portfolios. So payroll loans growth was strong, 10% in this quarter. This is partially affected by acquisitions of portfolios that we made in the amount of R$ 1.8 million, billion, sorry.

Vehicle financing showed a reduction of 9% in this quarter and 20% in 12 months. We don't see this portfolio growing at least until the second half of next year.

Another line I'd like to call your attention to is the credit card loans, these R$ 56 billion in the first quarter showed a reduction of 5%. This is very much due to seasonal effects. Typically the last quarter of each year is particularly strong. And I would like to mention that these R$ 56 billion of credit card receivables is composed, substantially composed of noninterest receivables. This is a characteristic of the Brazilian market. In our particular case, three quarters of this number, roughly speaking, relates to sales at sites or installment, but in any case, noninterest receivables, and this 75% figure is above market average. The remaining, that is barring receivables, we have a smaller part represented by revolving credit. Revolving is the part of this portfolio that bares the higher risk and higher rates, and here, again, this represents only 8% of these R$ 56 billion and we are below market average.

So altogether we showed an increase in the quarter of 3.4% in our credit portfolio, 14% in 12 months. When we exclude foreign exchange rate variation, that's the last line here, we would had actually a contraction, a small contraction of 0.6% in this quarter and a modest growth of 6% in 12 months.

Moving to **page number six**, we show this for the first time in a first quarter; is the segregation of results in basically two blocks: credit and trading on one side, and insurance and services on the other side. And here we try to segregate the part of our PNL that is riskier and more sensitive to economic cycle, as is the case for credit and trading, and a less risky part and much less sensitive to economic environment, that is the case for insurance and services. And here we can see that most of our R$ 5.8 billion of recurring net income was made in the insurance and services part, that delivered a substantial return on equity, 47%, while the credit and trading showed a return close to our cost of capital.

Moving to **slide number seven** where we see the mix of our loan portfolio, I would like to call your attention to the right side of this chart, the upper part of this page, where we see the growth of mortgages and payrolls that basically almost doubled in three years. Here again consistent with our strategy of moving to less risk portfolios.

On the lower part of this slide we see that we were able to grow our margin, financial margin with clients, despite smaller number of calendar days that had in this first quarter, a relevant effect of minus R$ 262 million, and the positive element was basically due to re-pricing of our portfolio. The new competitive environment and the more risky environment made us re-price several products increasing the spreads.

On the **next slide, number eight**, we see some stability in the gross credit spread, around 11%. If we exclude the foreign exchange effects this would have been 11.3%. When we take into consideration the risk element, so adjusting this figure to provisions for loan losses, we see a sharp reduction, and this is due of course to high level of provisions made in this first quarter, and the same applies when we see, when we look at the noninterest margins with clients.

On next page, **page 9**, we see financial margins with clients, sorry, with markets, so, a very strong figure of R$ 1.9 billion. We labeled this as a one-time event. Probably it would be better to call it non-usual event, because we don't expect this to be repeated in the next quarters. The more, let's say, consistent figure would be around R$ 1 billion, as we can observe in the previous three quarters.

Slide number 10, starting to talk about credit quality, the 90 day NPL ratio we see a reduction in individuals, a continuing reduction in individuals, a process that have started a couple of years ago, and certain stability when we see the total portfolio. Actually, this 3% total would be 3.1 if we exclude effects variation. So basically stable in relation to the last quarter of 2014.

On the lower page of this slide we see a substantial increase in the 90 day cover ratio, basically meaning that for each real that we have in 90-day, we have R$ 2,00 of provision, and this increase from 193 to 200% was basically due to the increase in the generic allowance coverage, that is the middle parts of those bars. This was a voluntary and preemptive move that we decided to make basically downgrading some specific names of the corporate portfolio. So, given the more challenging environment and in line with our more conservative policy, we somehow anticipated some effects by building up those provisions and that's the main reason for the high figure of R$ 5.5 billion that we saw in the previous slide. This means that if we are right in anticipating problems that we might see in the future, we could expect this cover ratio to go down a little bit in the next quarters and conversely we would see some increase in the NPL ratios. But the expense itself, in our view, wouldn't grow. Actually, we are going to talk about that in the future, later in the call. We expect the expenses to go down during the next quarters.

Going to **slide 11** we see here that the increase in provisions was followed also by a reduction in recovery. This reduction is partially due to seasonal effects, but also related to the more challenging economic environment. Actually, we expect now for 2015 to have this figure to be around R$ 4.2 billion in the whole year, down from R$ 5 billion that was our previous expectation.

In the lower part we see the total level of allowance for loan losses reaching R$ 28.4 billion.

Slide **number 12**, we see here credit quality measured by 15 to 90-day NPL ratio and we can see very clear here a seasonal element in this increase from 3.8% to 4.1% in individuals. This phenomenon was very similar to what we have seen in the previous four years. When we take the total figure, including companies, we see an increase of 0.4%.

Moving to **slide 13**, here we show the breakdown by segments of our loan loss provision. On the grey area, the grey part of the bars, we show the retail banking loan loss expenses of each quarter, we see some stability around the R$ 3.5 billion, and what explains this substantial increase of expenses in this quarter is clearly related to the wholesale banking operations. Here we labeled this one-time event, again here probably non-usual would be a better form of labeling it, and we believe that this will be the worst point in terms of nominal expenses, 5.5. We expect this figure to go down quarter by quarter and the accumulated figure for the year, in our best judgment, would be close to the midpoint of our new expectations that we are going to show a little bit later. So this again was a preemptive and voluntary measure downgrading some particular corporate credits.

Moving to **slide number 14**, I'd like to highlight again here the increase in banking service fees and income from banking charges, 0.6% in the quarter, a quarter that is normally slightly weaker than the last quarter of the previous year. We see a reduction in credit cards, 3.7%, this as a seasonal element. When we look the 12 months growth, we have 12.5%, and if we exclude non-core insurance activities we reach 13.4%. What we consider to be non-core is: extended warranty, this is a business that we are getting out of; large risks, that we have sold last year; health insurance and others.

Moving to **slide 15** we see a robust growth of revenues of our core activities, insurance core activities, 14%. On the right side we see a good evolution, both in terms of claims ratio and combined ratio, and a relevant market share of 18%.

On next slide, **number 16**, we show noninterest expenses, reduction of 2.3%. Here again there is a seasonal element, and we show also here what would be this figure without offshore operations, because here of course there is an element of currency devaluation, so we would have had a 4.2% contraction and in 12 months a growth of 7.6, that's below the inflation of the same period that was 8.1%.

In the lower part of this slide we see a continuation of the positive trend of improving our efficiency ratio in 12 months. When we take just this quarter, again an improvement in the efficiency ratio to 43.2%, but a worse figure adjusted to risk because again of the higher level of provisions that we made in this quarter.

Moving to **slide number 17**, talking about core capital ratio, we had 12.5% in December, despite the income that contributed positively to 0.8%, we reached 11.6. This was due to payment of interest on capital that we typically do in the first quarter, payment of dividends, the additional impact of Basel III schedule, additional 20% Basel schedule, and a relevant effect of 0.4% of increasing taxes loss carry forwards. This is related to our structure of investments abroad. When we have a relevant depreciation of the real, as we had in the first quarter, close to 20%, our investments abroad, the increase in our investments abroad is nontaxable, while the hedge that we make is tax-deductible, so this produces a substantial increase in our taxes loss carry forwards.

When we see full Basel III rules, we have this element in a stronger way, so starts from 11.6% of common equity, we reached 9.6% fully loaded, and we just broke down here the effects and deduction schedule anticipation and risk weighted assets rules anticipation because I believe that not all banks take into account all those effects.

This 9.6% fully loaded Basel III ratio, given the present FX ratio around 3.10, would already be above 10%. So we are comfortable with this level of capital, particularly given our ability to generate profits.

Moving to **slide 18**, just quickly highlighting good liquidity of our shares, reaching close to R$ 1 billion daily trade in volume, with a good balance between local and external markets.

Slide 19, we decided to change our outlook for this year given the relevant changes that we observed in the economic situation and the relevant changes that we observed in the expectations of economic agents. We had relevant changes in FX rate, in interest rates and particularly in the forecasts for economy growth. So this led us to change all the lines of our outlook. Our total portfolio in this reviewed outlook would grow between 3% and 7%, only given the low economic growth environment, that means lower demand for credit on one side and a more conservative approach from ourselves.

In terms of managerial financial margin our reviewed outlook is substantially higher than the previous one given the re-pricing process of portfolio that we have already mentioned, given also the fact that we had already a very strong first quarter and, finally, given the higher level of interest rates.

The loan loss provisions outlook went also up from R$ 13 to R$ 15 to R$ 15 to R$ 18 billion. So this is partially due to the already mentioned lower level of recoveries, that I mentioned would be in our expectation around R$ 4.2 billion, is related of course to the more challenging economic environment, and finally to the fact that we had already made a substantial increase in expenses in this first quarter.

Service fees and results from insurance we made a small adjustment here, and finally noninterest expenses, given the new level of FX rate and given the higher inflation, we are forecasting 8.3% inflation for the year, we have adjusted this to 7% to 10%.

Finally, on **slide 20**, just to briefly mention the strategic alliance with MasterCard that we had already announced to operate a new electronic payments network and also to highlight the fact that we have opened our new technology center that is aligned with our strategy to move in the direction for a more digital bank and to provide more agility and security to our clients.

So with that I finalize here and now Marcelo Kopel and myself will be available for questions. Thank you.

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 key on your touchtone phone now. If at any time you would like to remove yourself from the questioning queue, press star two.

Our first question comes from Jorge Kuri, Morgan Stanley.

Jorge Kuri: Hi, good morning everyone. Let me ask you two questions, please. First on asset quality, if we go back to the last couple of earnings calls you were very confident on delinquency and provisions would remain steady, even though the economy was already in recession and the labor market was suffering, and you mentioned you had the risk the balance sheet, I mean, general prepare the bank for the tougher times. To be fair you did get some pushback from the analysts, at least in the first quarter call that some of your views were probably a bit too optimistic. So here we are, three months later and provisions surprised to the upside, renegotiated loans had a pretty big jump, went up a lot and you just materially increased the guidance for provisions this year.

So obviously something did not play out as you expected. Now I hear that, you are saying that the deterioration in delinquency and increasing in provisions is now behind and, you know, the worst is behind and we are going to see actually improvement going forward. So given that three months ago you did not see the deterioration that was around the corner, how do we get confidence that this time around you are going to get it right? And maybe, the right question to ask is: what did you miss, what did you learn through the process and, more importantly, what have you changed in order to make sure that this won't happen again? I'll ask my second question later. Thank you.

Eduardo Vassimon: Jorge, this is Vassimon. First, we are knowledge that the new economic environment is worse than we anticipated, so what we did is to adjust the provisions given the deterioration that I believe is substantially worse than we and part of the market expected.

Just to qualify about the “the worst is behind us"; the worst is behind us in our opinion in terms of provisions. In terms of economic environment, we believe that the worst is still to come. Probably in terms of economic growth the second quarter will be the worst one and we are sure that unemployment will go up and so we expect even in the retail portfolio to have some slightly increase in provisions in the next quarters.

But in terms of the level of expenses our judgment is that we saw the worst point, and all those elements are incorporated in our new guidance. So, again, it's a very challenging environment, we do not deny this, we expect the retail portfolio to suffer still a little bit, we are going to see NPL ratios going up, probably because we made this preemptive move in building up provisions, but we are confident that the final number for the year will be close to the center point of our new outlook.

Jorge Kuri: All right, thanks. My second question is on your guidance for NII growth. How much of the change is market to market as a result of the high trading gains this quarter and how much is due to things that you think will be different over the next 12 months versus what you told us three months ago? Maybe you can share the detailed math behind the terms of the key drivers of this line. Thank you.

Marcelo Kopel: Sure, hi, it's Marcelo, good morning. Let's strip out, you know, why we reviewed it. First, obviously the, let's say, the additional, let’s call, R$ 900 million of, let’s say, treasury gains that we had this quarter obviously had an influence on the revised the number, but we are not, let's say, putting that as part of our run rate. We typically expect like R$ 1 billion a quarter, so that influenced the number. The second thing is, when we did the initial outlook of 10% to 14%, there was a high component of using the NIM level of the fourth quarter and just by annualizing that would give us a lift on the NII, okay? So part of that comes from that, but over and above that we got the market rates going up and spreads going up as well, so those things also influenced. And a third element which is important is, our free cash flow, which, you know, is subject to the influence of the SELIC rate, in our base scenario when we provided the outlook, we had a lower SELIC. So the SELIC by itself also had an influence on why we are expanding that. So to summarize, we chewed up, you know, the outlook including the performance of the first quarter plus higher interest rates and higher spreads over the course of the year.

Jorge Kuri: All right. Thank you Marcelo, thank you Vassimon.

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

Carlos Macedo: Good morning Kopel, Vassimon, thanks for taking questions. I have one question that will have a second part I believe, and I’m going back to Jorge's question on asset quality. If we take your numbers for the new guidance it implies, I mean, compared to the old guidance increase, in around R$ 500 million per quarter in provision expenses outside, I mean, discounting what happened in the first quarter. Do you think that's enough to offset all the headwinds that you talked about in the economy? I mean, we are talking about an unemployment rate that is going up and will continue to go up, we are talking about a potential hit in SMEs that hasn't really come through yet, at least not in the numbers that you provided us. Do you think that that is enough for us to see, to basically last through the end of the year or, you know, do you think there is more risk to the upside than the downside year?

Marcelo Kopel: Carlos, hi, it's Marcelo. The view is that the range that we provided, 15 to 18, should be enough to walk us through what he just described okay? We previously commanded... actually, sorry, we commented that in the other call, but embedded in this 15 to 18 there is some deterioration in the blended rate of the individual's portfolio. Obviously, this is a consequence of a higher or a growing unemployment rate, and in the rest of the, let's say, increase of the loan loss reserve it comes from the large names.

We've been trying to be as much preemptive as we can in terms of anticipating those provisions. Vassimon described the potential impact of certain names going over 90 days, which will increase the numbers in terms of the index and reduce coverage, but nevertheless, do not impact or spike, produce any additional spike in the level of the provisions. Therefore, the current view is that we should be blending the year in the midpoint of the new outlook, but having some room to maneuver in case, you know, things get worse than we expected.

Eduardo Vassimon: Just to complement Carlos, here you mentioned a very small, small and middle market segment, this is of course a segment that suffers in this new and more challenging environment, but in our case, if you look our growth in this segment it has been very modest; in 12 months we have grown less than 2%, so we have been particularly careful in this segment.

Carlos Macedo: Okay, thank you. Just going back to the provision you made on the corporate side on this quarter, would you call it more of a specific provision for companies that might have been involved in the "Car Wash" investigation and companies in the oil sector, or would you call it more of a cyclical, provision for cyclical factors that are involved with the downturn in the economy?

Marcelo Kopel: Carlos, I wouldn't call it cyclical. I would call it specific names where we have been focusing more, but nothing, you know, that you would say sector A or sector B is being hit hard. So, I wouldn't call it cyclical.

Carlos Macedo: Okay. I did see that a lot of names moved to the D category and that's when you start getting 90 days past due, you could have more provisions if they move pass 90 days past due to 120, right?

Marcelo Kopel: No, actually E will reflect the over 90, you know, D is before 90 days.

Carlos Macedo: Okay, that's what I meant, sorry.

Marcelo Kopel: Yes, but that is just a result of how we are seeing things and trying to preempt the provisioning, as Vassimon described before.

Carlos Macedo: Okay. Final question, sorry, just on this topic. Your guidance does reflect, for NII, does reflect a strong increase, as you said. Your non-accrual loans are growing for the first time in I think five or six quarters, and presumably that growth will accelerate going forward. What kind of growth do you factor for your non-accrual loans over the year? I know that your loan growth is 3% to 7%, but presumably your non-accrual loans will increase, and how much of an impact that will have in the expansion of your margin, of your NII?

Marcelo Kopel: Well, it is embedded in the growth that we provided, the revised outlook already embeds a higher, let's say, non-accrual portfolio, but given that a bigger piece of this non-accrual is coming from larger tickets, the for gone revenues of that is lower than one could think.

Carlos Macedo: Okay, but would it be fair to say that even though your portfolio grows at 3% to 7% your accrual loans were probably grow at a fraction of that?

Marcelo Kopel: Yes, it is fair to say because, you know, it's just how the math would play. But one thing that is important, Carlos, is, this year in particular, the average portfolio growth would be higher than the end of period growth, so that also helps, obviously I'm talking about the current portfolio, that helps increase the NII.

Carlos Macedo: For sure. But so would the non-accrual loans?

Marcelo Kopel: Yes, absolutely. I'm just adding to the point that you made about the non-accrual.

Carlos Macedo: Okay. Thank you Kopel, thank you Vassimon.

Marcelo Kopel: Thank you Carlos.

Operator: Our next question comes from Mario Pierry, Bank of America Merrill Lynch.

Mario Pierry: Hi everybody, good morning. Let me ask you two questions as well. Let me stay with the topic on asset quality. As you mentioned, you do expect NPLs to go up from current levels. If you could share with us what type of increases are you expecting, especially on the corporate and in the individual segments? And how should we think about, you know, if we go back and look at your historical NPLs, the peaks are much higher than what you are at right now. Would you think that we could return to an environment where we see the peak NPLs that you showed especially in 2012 as you showed on your slide 10, but even if we go back historically the peak used to be much higher. So if you can give us some guidance on what type of increase in NPLs you expect.

Also, on asset quality coverage ratio 200% now is the highest it has been, I think at least for five or six years. How should we think about your coverage ratio going forward? Is this a ratio that should be returning to 170% in the next few years or given the uncertainties in the market right now, would you expect the ratios to stay at 200%?

And then I'll ask you another question on expenses, but if you could answer these two questions that would be great.

Marcelo Kopel: Thank you Mario for your questions. Let's start with the coverage ratio. Coverage ratio is really, is not an objective, but as a consequence of everything that we are foreseeing in the portfolio. So, as Vassimon mentioned before, if the actions we took preemptively to provision, to build provisions… let's say, if the judgment that we have materializes, you could see some consumption of the coverage as a result of that, as well as the NPLs going up.

Talking about the NPLs going up, you would probably see it at a higher point in the second quarter and going down throughout the third and the fourth quarter. The end of the year, you know, the end of 2015, should be slightly higher than we actually saw for the end of last year, but lower than we actually are going to see in the second quarter. So we cannot provide you with the number, I can give you the trend; is basically up in the second quarter and slowly returning throughout the end of the year. At that is the view we got in this. And obviously when we do see that, you would see impacts on the coverage, because as credits flow from the early bucket into the later bucket, the longer bucket, you know, coverage will be consumed on that.

Mario Pierry: Okay, when you mentioned that NPLs should be moving up in the second quarter are you more concerned about the corporate or the consumer portfolio?

Marcelo Kopel: Primarily corporate. There will be something in the consumer, but this is more related to the typical behavior that we have every year when you see a spike in the short term in the early buckets, and some of that goes into the longer bucket. On the corporate side is more on a case-by-case basis.

Mario Pierry: Okay Kopel, and from what you mentioned then, clearly you don't see your NPL ratios going back anywhere near the peak levels that we saw in 2012.

Marcelo Kopel: No, I don't. That's the current view of the house.

Mario Pierry: Okay. My second question then is related to your expenses. You increased your guidance more in line with inflation or even above inflation. For the last couple of years you were able to keep your growth below inflation. Also when I look at your efficiency ratio it has been improving, but still is substantially above your peer, your main peer here in Brazil. So I was wondering, what else can you do on the expense front in order to grow below inflation?

Marcelo Kopel: Let me strip out the growth on expenses in two major components: The domestic operations and the international operations. International operations, given the behavior of the Brazilian currency not only against the dollar, but against the other Latin American currencies, in relative terms the real was weaker, which means that, you know, when we do the translation of those currencies into our own local currency, we are getting benefits on the top line, but also we are getting, you know, a higher component on the expenses line. That net of that is positive since we are generating profits abroad, but on a line by line basis you get some distortion out of that.

When we look at the domestic piece of that, we are, you know, working in terms of streamlining our processes and continuing to make sure that the other lines non-related to personnel become more efficient. There is a new, there is a, part of the restructure we did earlier in the year created a new function, which basically you can call that a " chief operating officer", which now has not only the technology part of the Bank, but also all the operations area. We expect the synergies to come out of the rationalization of processes and the way we run those operations areas. We should be able to come up with an estimate by, you know, when we talk about the second quarter numbers, but this should be something that will provide long-term gains by becoming more efficient in this particular area.

And a third element is the behavior of our client is migrating into becoming more digital. So by becoming more digital, you know, it asks us for less of a physical presence, which is more labor-intensive, and requires larger IT investments. Having the ability to foresee that… you know, five years ago we launched that big R$ 11 billion program of IT investments and this is materializing now. So over the course of the years the physical presence will be less important than the digital and this should also help us bring more efficiency.

Mario Pierry: Okay, so, so, just to give us, are you willing to commit to some type of efficiency target over the next year or two?

Marcelo Kopel: I mean, the commitment comes from our own goals. Every senior executive here has a goal in terms of its expenses and the target is to, at least on the domestic side, grow at inflation, which means that you have a challenge by itself. When you isolate the component of FX and, let's say, inflation abroad, you know, this is less under our control. Not that we don't act on that, but, you know, the local executives are tracked and measured about growing at inflation.

Mario Pierry: Okay, perfect. Thank you very much.

Operator: The next question comes from Saul Martinez, JP Morgan.

Saul Martinez: Hi guys. I have two questions on credit .One is a little bit of a follow-up on the previous question. There has been a pretty substantial structural decline in asset quality metrics across old measures. You look at 15 to 90 days delinquency, yes, we see the seasonality in 1Q, but individual 15 to 90 days were 11% I think in 09, 7% in 11, now 3% in change. You see this across a lot of metrics, longer-term and the reasons are, you know, you've discussed a million times, mix versus risk, but are we at an inflection point even with the structural changes, especially considering not just the current economic environment, but even in an environment where Brazil doesn't grow much over two, three, plus years, four years, I know this isn't necessarily the house view, but how do you think about the risk on credit of a prolonged and gradual worsening in terms of credit? How do you think about sort of the structural dynamics over two/three year period considering an environment where Brazil doesn't really grow much or stagnate over a multiyear period?

Second question is on provisioning policy. It's a more specific question and, you know, how closely does the Central Bank forces banks to harmonize classifications? You took a generic reserve in the wholesale, generic reserves in the wholesale bank, but I guess that what I wanted to understand better is if there is a… if this is a conservative risk classification do other banks need to upgrade and revise their classification, conversely view risk classifications not as high, how proactive would Central Bank be enforcing you and other banks to harmonize…

Eduardo Vassimon: Saul, this is Vassimon. In terms of asset quality looking ahead, we expect the Brazilian economy starting to recover next year. We do not expect a substantial growth in 2016, and probably not in 2017 neither, but this should improve marginally the credit conditions. Having said that, we have been, in our case, adopting a more conservative approach in terms of reducing risk appetite and calibrating the ratings we operate since the mid of last year. So we feel prepared to face this new economic environment that will require, of course, a very close monitoring. But we expect things to start to improve next year. Actually, I think I briefly mentioned, in terms of economic activity, I think the worst will be seen in this second quarter. Of course, we will see effects of this during several months yet, unemployment should go up until the end of this year, beginning of next year, but we believe that we will have adequately adapted our credit policy to this new environment. Off course, given this environment, we have to price our credit accordingly, and so in a riskier environment we expect to re-price our portfolio as we started to do in this first quarter.

Saul Martinez: Vassimon, sorry to interrupt. I apologize for asking you to start over again, but I think for me and for some others the line when quiet up until about 10 seconds ago. So I missed, I think we all missed, if I'm not mistaken, your response. I apologize for that.

Eduardo Vassimon: Okay, sorry about that. So I'm going to repeat everything, maybe you have already heard, but we expect the Brazilian economy to have its worst point in the cycle in this second quarter, in terms of economic activity. Of course, the effects of this will be felt still for several months. In terms of unemployment, for instance, the peak will probably be seen between the end of this year, beginning of next year. So this slightly improvement that we shall see next year, we don't expect any fantastic growth, but some growth already next year, would marginally improve credit conditions in general. Having said that altogether is a riskier environment and we have already been adapting our credit policies since the second half of last year, and also we are re-pricing our credit in a fashion that is compatible with this riskier environment.

In terms of the Central Bank of Brazil approach, yes, they follow and monitor this very closely and when they do identify a substantial divergence between banks for the same specific client, they question both banks. But when you are more conservative, much more conservative than the rest of the market, Central Bank typically wouldn't ask you to reduce your provisions, particularly because there is no tax effect, as you know, in the provisions. But when they see the majority of the market with a specific name and one outlier with a much better classification, then they probably would ask this outlier to adequate its rating.

Saul Martinez: Do you feel… I know that you can't talk brothers, but do you feel like your provisioning on the corporate side tends to be on the conservative end of the provisioning levels in the banking system?

Eduardo Vassimon: I can’t comment on other participants in market. I see our policy as adequate to the present environment. We historically have had a conservative approach, and I think it's adequate and particularly it has been preemptive, particularly in this quarter, anticipating possible problems that we might see in the future.

Saul Martinez: Okay, thank you, and sorry for having, asking you to repeat your answer again.

Eduardo Vassimon: No problem.

Saul Martinez: Thank you.

Operator: The next question comes from Philip Finch, UBS.

Philip Finch: Hi everyone. Thank you very much for the opportunity to ask just one question. It's regarding HSBC. If they were to sell their Brazilian and/or their Mexican business is this something Itaú would be interested in exploring? And if so, you know, in terms of the sort of synergies that you think you could get from such an acquisition, could you outline what you think these could be? Thank you.

Eduardo Vassimon: Philip, this is Vassimon. The only thing I can say is that we always analyze opportunities that could add value to our franchise, to our shareholders and that would be compatible with our strategies. So that's all I can comment.

Philip Finch: Okay, fair enough. Thank you.

Operator: The next question comes from Amit Mehta, Pimco.

Amit Mehta: Hi, good morning and thank you for hosting the call. I guess I just wanted to follow up on the asset quality question that has been posed already. You made the point that you've taken more specific provisions for corporates and I'm just trying to get my head round what's the kind of GDP, I know you've revised your GDP estimates for Brazil, -1,5% for this year and unemployment higher. Can you give us some sensitivity if we were to stretch those economic scenarios for more deterioration? How much more your credit quality or preemptive provisioning would need to go up from the levels that you are guiding currently? So can you just give us some color on maybe another half a point, percentage point, deterioration in the economic outlook for Brazil and if you had one more percentage point of deterioration in the unemployment rate how much further that would stretch or preemptive provisioning?

Marcelo Kopel: Amit hi, it's Marcelo. In terms of the sensitivity to GDP fluctuation, on the magnitude that you are talking about and within that calendar year, we would probably fall within the interval that we provided the 15 to R$ 18 billion, and which doesn't mean that will not affect subsequent years because with the, as you pointed, the -1.5% GDP growth for this year talks to probably 0.7 growth on the next year. So this would have a chain effect on the following year. So, with the sensitivity we ran when we did, you know, with the exercise we've done for the new outlook and given what we are foreseeing in the economy, the 15 to 18 billion could be okay. On a lower fluctuation of that what could change the view is larger cases that we did not contemplate on the preemptive provisioning that could spike the provision level. But it's less related to specific slowdown and more related to large cases that were not contemplated in the exercise.

Amit Mehta: And just on that basis, I mean, where would you see potential risk, large risk candidates coming from? I mean, you made the point in your commentary today that it was much more broad-based rather than any sector or segmented specific. So can you just give us more color on where the hotspots are for you and your portfolio?

Marcelo Kopel: Amit, there are some companies that are, let's say, more related to some of the slowdown that we saw as a consequence of the initial events that we had in the year, you know, some of them related to the Petrobras discussion. You know, now that the financials are released, this becomes less of an issue and life should continue there. But it's not really one specific name or another one, or one specific sector or another one, but the overall, let's say, focus is on larger names that could potentially change the overall interval, not that the smaller names will make a meaningful change on the new 15 to 18 billion range.

Amit Mehta: And just to take a clear message from what you're saying, majority of the risks that you see sits on the corporate segment rather than the individual segment, is that fair to say?

Marcelo Kopel: Yes, it's a fair statement, and we did mention before that you could see some optics on the individuals' portfolio and that is something that comes together with slower economy, but, let's say, the majority of the increase is related to the corporate segment.

Amit Mehta: Okay, thank you.

Marcelo Kopel: Thank you.

Operator: The next question comes from Victor Galliano, Barclays.

Victor Galliano: Hi, thanks for the opportunity. Just a quick follow-up again on the provisioning side and, you know, taking the midpoint of your guidance that you've taken for net provisions, of 16,5 billion and the fact that you've done 4.5 billion net in the first quarter, that doesn't seem to me like it's going to be coming down a whole lot in the next two three quarters. If you average that, that should be around 4 billion in a quarter. And obviously with the fact that you are also saying recoveries should be lower, given the economic situation, it doesn't make it look like a sort of one-time-big-event if you see what I mean, the first quarter, net provisioning. So I'm trying to get my head around that unless, unless obviously this, the remainder of this 16.5 billion is not distributed evenly over the quarters, which is also very possible, but that could also imply that you see another big quarter of provisioning ahead of us.

And my second question… so I just wanted to understand that a little better. And my second question really is about capital. Could you just repeat what you said in terms of where we are, in terms of where we are now in the exchange rate? Where would you be on a fully loaded Basel III; would that be at above 10%? And also if you could remind us of what the impact of CorpBanca will be in terms of the impact on capital and that should, I believe, come through in the second half of the year. Thanks.

Marcelo Kopel: Okay, it's Marcelo, let's answer your questions starting with the end. The CorpBanca fully loaded impact would be 50 bps on our capital base. The level, if we recalculate our Basel of 9.6 with the dollar exchange rate at 3.10, this will bring us above 10% of CET-one fully loaded.

And the third one, talking about the provisions, let's split the answer in two parts: one is recoveries and the other one is on the gross provisions. On the recoveries of Vassimon mentioned that we did have 1 billion in this quarter. Typically the first quarter is a slower quarter in terms of recoveries and you can test that against the historical data and this is just a function of more commitments that people have in the first quarter, and companies as well. So our number for the year talks to a 4.2 billion recovery level. For the following quarters, the gross provisions should either level off and then starts slightly reducing from the third quarter onwards. If you do the math, you know, using, you know, our first quarter of R$ 5.5 billion, you know, you would get to a gross number of R$ 22 billion of gross provisions. If you look at our new outlook, the 18 billion, which is net of recoveries, assuming a 4.2 billion recovery, brings you to R$ 22.2 billion gross provisions. So that's how we laid out our outlook and that's why we say if our current view materializes, that will bring us more in the midpoint of this new 15 to 18 billion range than to the top part of that.

Victor Galliano: Okay, understood. Thank you very much.

Operator: The next question comes from Boris Molina, Santander.

Boris Molina: Yes. I had a question regarding the CorpBanca transaction. I don't recall that, you know, at some point I think I read the transaction agreement, but what are the conditions in the transaction agreement under which the controlling shareholder of CorpBanca could walk away from the transaction without paying the 400 million breakup fee? If it is contemplated there, you know, the controlling shareholder votes partially in favor of the deal, but then minorities vote against him, you know, fighting the KPMG report, that is in rumor to propose a renegotiation of the exchange ratio, or if minorities, a representative minorities try to block the deal because, you know, the combined company is above the two thirds and minority shareholder rights of basically go to zero under Chilean regulation. So what are the circumstances? Because here, you know, we hear from Chile… we went to Chile a couple of weeks ago and the market down there is basically saying that Mr. Saieh believes that his promises as a new and he wants to renegotiate the deal and he is looking for ways to undermine the deal here and there. So is there any circumstances where the Board can legitimately reject the transaction and Corp Group not pay the US$ 400 million fee?

And would this rejection by the Board or a proposal to renegotiate trigger some acceleration of the credit lines that are granted between CorpBanca shares that would force them to seek alternative financing for those 900 million that you have advanced to them?

Eduardo Vassimon: Hi Boris, this is Vassimon. We will not comment on rumors. We keep working to close this transaction in the second half of this year. Obviously it is subjected to, still two main steps, formal steps that’s the approval by shareholders, of course it's up to the shareholders to decide whether they believe it is a good business for CorpBanca, and if they approve, then there is a final step, a final main step that is the approval from regulators.

The whole transaction is taking a little bit longer than we expected, but it's moving forward, we had recently the release of the opinion of the accounting experts. So things are moving and we believe, again, that we will be able to close it in the second half of this year.

Boris Molina: Does the opinion from the accounting recommend an updated exchange ratio?

Eduardo. Vassimon: I cannot comment on that, it's not yet a public document.

Boris Molina: Okay, thank you.

Eduardo Vassimon: Thank you.

Operator: Our next question comes from Eduardo Rosman, BTG.

Eduardo Rosman: Hi. I have a question about your cost of capital. An event at the end of last year management mentioned that Itaú's cost of equity was at 16%. So I wanted to understand if the Bank sees its cost of equity today at a higher, lower or same level when compared to last year. And how should we think about Itaú's cost of capital evolution once the Bank starts generating more and more over its results outside Brazil? Thanks.

Marcelo Kopel: Rosman, the view, obviously the cost of capital view is a long-term view. We updated that so we are probably closer to 17% than 16 that we mentioned, and this is obviously a function of changes that we saw in the economy and for how long this will be. When we look at investments abroad, you know, we need to look at and balance that against the benefits that this franchise will bring us and how we are going to make it compensate for the money that is being deployed. So there are several factors that get into this analysis, but the base scenario takes into account the 17%. You know, there could obviously be adjustments to that, depending on the particularity of the investments, but that's how we start the whole analysis.

Eduardo Rosman: Okay but since, let's say, if we argue that you are going to have bigger diversification, lower risks, we could eventually, we could, we could be working with a eventually a lower cost of capital going forward. Does it make sense?

Marcelo Kopel: To some extent, yes. This could be, let's say, not a key decision factor, but something that could influence if we are looking to accelerate on earnings diversification.

Eduardo Rosman: Okay, thanks a lot.

Operator: Our next question comes from Natalia Corfield, J.P. Morgan.

Natalia Corfield: Good morning, thank you for the question. It's actually on CorpBanca again. I know you cannot comment on rumors, but is it possible to tell us exactly where you are in the process and what is exactly missing to get it approved? And also, if this transaction closes, is there any possibility that Itaú does not keep the control?

Eduardo Vassimon: Hi Natalia, this is Vassimon. The next step would be the call of the assembly of shareholders to discuss and hopefully approve the deal. And your second question was?

Marcelo Kopel: If we do not have control on the transaction.

Eduardo Vassimon: Oh, sorry. No, the structure of the transaction guarantees control for Itaú.

Natalia Corfield: Right. And the assembly of shareholders, when is that expected to take place?

Eduardo Vassimon: We expect to be in the near future, but I cannot be more precise than that.

Natalia Corfield: Okay, thank you.

Eduardo Vassimon: Thank you.

Operator: The next question comes from Carlos Gomes, HSBC.

Carlos Gomes: Hi, good morning and thank you for taking another question from me. Two questions. One is, can you tell us what you expect the effect of the higher long-term interest rate TJLP to be, both on your on-lending from the BNDES and on the tax deductibility of interest on capital? So this long-term effect of a long-term interest rate.

And the second refers to the *consignado* business, the payroll lending. You are growing very fast, 81% year on year, it's becoming a significant part of your portfolio. What is the potential for growth in that segment, which seems already fairly well exploited? Actually it's only concentrated in the public employees. How much can that business grow for you and when would you see any risk in that business? Thank you.

Marcelo Kopel: Hi Carlos, starting with the payroll, growth on that should, you know, for us and for the market, should slow down. Probably, you know, the view we have is that you grow somewhere, you know, low double digits, and if you look at last year there was a lot of inorganic activity in our growth because of the acquisitions we've done. So that is a fact that will not happen this year.

Back to your original question on TJLP going up affecting the on-lending, yes, it could affect the on-lending, but still is a privilege rate that borrowers can access into the market. So I would say it has more to do with the amount of BNDES fund that will be available than the appetite for that in the market, okay. And for us, since we underwrite the credit risk and we basically borrow from the BNDES and lend by underwriting, you know, the credit risk, you know, to the extend, you know, the borrowers again on that will show up given that it is still a preferred rate compared to the market rates.

The second point on the impact on interest on capital, it has a positive impact on, given the fact that it increases the interest you pay and consequently, since this is a tax deductible expense, it also benefits from that. So during that period, to the extent this rate is going up, it means that you could have a lower effective tax rate.

Carlos Gomes: And that's, sorry, but that has not been under discussion, the government has not proposed to modify that?

Marcelo Kopel: I mean, there are more rumors in the market than the government talking about itself, but again, you know, it could be on the table for them. It all depends, it really depends on how they control the agenda and how fast it can approve the other economic measures that were already identified and can produce the additional revenues they need.

Carlos Gomes: Okay, thank you. If you could also extend on the BNDES availability of funding, what are your expectations for that? Obviously you are a big agent for the BNDES, do you expect BNDES to be able to grow its portfolio this year or you are not counting on additional resources for the bank?

Eduardo Vassimon: In line with this effort, fiscal effort of the government we should see lower growth rate for BNDES in terms of new disbursements.

Carlos Gomes: But there is a still growth, there is still an increase relative to the end of last year?

Eduardo Vassimon: Probably, but not a relevant one.

Carlos Gomes: Okay, thank you.

Eduardo Vassimon: Thank you.

Operator: The next question comes from Paulina Breschi, Pulso.

Paulina Breschi: Hi. I have again a question about the CorpBanca merge. So what would be the economic implications for Itaú in case that the merger doesn't work?

Marcelo Kopel: Paulina, I mean, the merger brings us the opportunity to build a larger franchise in Chile together with CorpBanca, and in case this entity is put together this will produce certain synergies that can only be obtained by the combined entities and not by the two entities alone. So that could be, let's say, will postpone the acceleration of our growth in Chile. This will probably be the implication.

Paulina Breschi: Okay, and I have another question. On the financial statements you have on page 152 the table that provides the analysis of the market risk by showing where the largest concentration of market risks are, right? So the table shows that Chile has R$ 9.4 million on average. What explains that number and what does it mean?

Marcelo Kopel: Yes, bear with me for a second. What note specifically you are looking at?

Paulina Breschi: On page 152.

Marcelo Kopel: Yeap…

Paulina Breschi: The table, it says that provides an analysis of the market risk by showing where the largest concentration of the market risks are, right? So it shows that Chile has 9.4, which is three times bigger than Argentina. So I'm wondering what does that mean. Is Chilean market more exposed to risks than Argentina and other country?

Eduardo Vassimon: Paulina, Chile is a much bigger operation than Argentina, so basically to assist our clients and be competitive in pricing we inevitably run some type of market risk. If this is your question.

Paulina Breschi: Okay, thank you.

Operator: The next question comes from Eduardo Nishio, Brasil Plural.

Eduardo Nishio: Hi, good morning and thank you for taking my question. I have a follow-up question from the Portuguese call. Recalling, you said that you are comfortable with your level of provisioning coverage today, the current situation, all else constant you would be able to deliver, or the plan is to deliver, ROEs above 20% for the next couple of years. So my question is, in terms of EPS growth, do you think you can deliver double-digit EPS growth for the next couple of years given the current economic environment? Thank you.

Marcelo Kopel: Hi Nishio. I can talk about the ROE and for us we can foresee us providing the 20+ return year after year. But the EPS is a longer, longer conversation in the sense that if you take into account that we distribute 1/3 of our earnings, you know, and, let's say, let's make the math simple, let's use the 24% example of our current ROE, okay? So say, you know, we distribute eight out of the 24, so it means that if we don't grow earnings at least 16%, ROE will go down. So I would say we will fluctuate in the range between 20 and 20+ of the current levels. Some expansion is possible? Yes, maybe not likely, but that is the backdrop we are working on, and if the economy starts recovering, it is possible to grow double digits the earnings per share. If not, then it becomes a harder exercise.

Eduardo Nishio: Okay, but your current guidance points to probably to mid-digit growth for this year, no?

Marcelo Kopel: Oh yes, yes. If you do the math you will probably arrive to some EPS around 15%.

Eduardo Nishio: Okay, all right. Thank you.

Marcelo Kopel: Thank you Nishio.

Operator: This concludes today's question and answer session. Mr. Eduardo Vassimon, at this time you may proceed with your closing statements.

Eduardo Vassimon: Thank you everybody for following and participating in this call. As a final note I'd like just to reaffirm our belief that we will be able to continue to deliver good results for our shareholders, with returns above 20%, although in this particular year of 2015, with a different composition among PNL lines, with higher margins and higher provisions this year. Thank you again.

Operator: That does conclude our Itaú Unibanco Holding earnings conference call for today. Thank you very much for your participation. You may now disconnect.