



**INTERNACIONAL CONFERENCE CALL  
ITAÚ UNIBANCO HOLDING S.A.  
Fourth Quarter and Year 2011 Results  
February 8, 2012**

**Operator:** Good afternoon ladies and gentlemen, thank you for standing by. This is Itaú Unibanco Holding conference call about fourth quarter and year of 2011 Results.

At this time all lines are in a listen-only mode. Later there will be a question and answer session and instructions to participate will be given at that time. If you need assistance during the call please press the star key followed by zero. As a reminder this conference is being recorded and broadcast live on [www.itaú-unibanco.com/ir](http://www.itaú-unibanco.com/ir). A slide presentation is also available on the site.

Before proceeding let me mention that forward-looking statements are being made under the safe harbor of the Securities Litigation Reform Act of 1996. Actual performance could differ materially from those anticipated in any forward-looking comments as a result of macroeconomic conditions, market risks and other factors.

With us today in this conference call in São Paulo are **Roberto Egydio Setubal**, CEO; **Alfredo Egydio Setubal**, Executive Vice President and Investor Relations Officer; **Rodolfo Henrique Fischer**, Executive Vice President of Itaú BBA; **Sérgio Ribeiro da Costa Werlang**, Executive Vice President of Risk Control and Finance; **Márcio de Andrade Schettini**, Executive Vice President of Consumer Finance; **Caio Ibrahim David**, Chief Financial Officer; **Rogério Calderón**, Corporate Controller & Head of Investor Relations and **Marco Antunes**, Accounting Director.

First Mr. Roberto Setubal will comment on the fourth quarter and year of 2011 results. Afterwards Management will be available for a question and answer session. It is now my pleasure to turn the call over to Mr. Setubal. Please sir, go ahead.

**Mr. Roberto Setubal (Itaú Unibanco):** Hello all of you again, thank you for being with us this morning or this afternoon depending on where you are. I am glad here to report our last quarter results and I will also comment on Redecard transactions and I will try to be fast enough in this presentation so that we can have more time for questions at the end.

I will make some comments on the highlights. I will be very short since we have already seen the numbers. We had a recurring net income of R\$ 3.7 billion in the last quarter of 2011 with a ROE of 21.8%. The total recurring net income for the year was R\$ 14.6 billion (ROE of 22.3%). Loan portfolio growth was strong, 19.1% at the end of the total year and a 3.9% growth in the 4Q11.



We were more cautious at the end of the year; as you know we have been talking about that and so loan growth was a little bit lower at the end of the year. The financial margins with clients grew 14.5% in 2011; net interest margins with clients decreased 70 basis points in the last quarter mainly due to two things: one was the reduction in the Selic rate, as you know; and the other one that I would like to call your attention is the funding expansions that came from clients that basically had a very low margin and the mix the overall has changed and I will comment additionally on this thing - but this when you make the numbers made up there is final margin percentage lower than it should be and this had an important influence in this calculation. Spreads on loans remained almost stable with a decrease of 20 basis points and this is mainly due to the change in the mix at the end of the year. Banking services fees and the insurance business grew 7.4% in the last quarter of 2011 totaling R\$ 5.9 billion and for the year the growth was 13.3%, totaling R\$ 21.8 billion.

Non-performing loan ratio increased by 20 basis reaching 4.9% in the end of 2011, pretty much inside our expectation for the quarter and our provisions. The allowance for loan losses was R\$ 3.9 billion, an increase of 6.1% when we compare to the previous quarter - a little bit above the level of growth of the loan portfolio. In 2011, non-interest expenses reached 9.5% in terms of growth for the year. In the last quarter of 2011 we were only 1.7% above 3Q11's level and this has a lot to do with our program of efficiency, our goals. We are announcing a 41% efficiency ratio for the last quarter of 2013 and I believe we are on the way to reach that number, and this 4Q11's figure shows that our evolution is in line with this goal. As a result the efficiency ratio that we plan to reach (41%) has improved 460 basis points when we compare the last quarter of 2011 with the last quarter of 2010; but for the year it was 140 basis points decrease in relation to 2010, which was a good result but we are speeding up in this sense. Integration, I think this is a very important point for the bank, because we have basically finalized everything in terms of integration of the operations of the old Itaú and the old Unibanco and now we have only one bank. All the products, all the services and all the business we do are in one platform and we do not have any more systems running in parallel. Basically, everything is already in the operational system that we have today and so we were able to close down the data center of Unibanco in December and so we are fully operating in one platform. This is an important achievement basically because we have in the last three years allocated more than 30% of our efforts in technology. We had allocated it to the integration and so we are freeing up more than 30% of our technology capabilities in order to produce improvements for clients, improvements in controls and this is quite important for us. We will leverage the bank in the future and so we are very happy about these achievements.

On the next page, we have the results. Basically I would like to call your attention on the market number – the second line, the margin with the market, which has decreased in the fourth quarter. It was part of the explanation for the results and the bottom line. We believe that our running rate for this line should be something around R\$ 800 million per quarter and so this was above



our levels, although it is still below the 3Q11. Banking services fees have increased 5.5% in the quarter mainly due to the credit card business that has seasonality in December, given the Christmas period and also insurance in terms of revenue has been growing strongly. You can see that in the last quarter we grew 5.5% compared to 10.7% for the full year of 2011 and so we are speeding up our insurance business. In terms of losses when we combine loans losses and retained claims we had growth of 4%. It was great but not as great when we look only for the loans; but on the other hand we had a good improvement on the recoveries. I think the great thing that we have done in the fourth quarter - in line with our objective of efficiency - is the control in the operating expenses. It was only a 1.7% improvement, this is pretty much in line with our objectives for the next year and I will talk more about that when we give the guidance for the full year of 2012.

On page 5 in terms of loans we closed the year with a 19.1% evolution, which was a little bit above the market overall. In the last quarter I think that credit cards, given the seasonality, was very strong; mortgages has been stronger and will keep on being very strong for the coming quarters. We are growing a lot in that business coming from a very low base. Small companies we are more careful as I had already commented, given the level of delinquency that was higher than we would like to have. On the corporate side the growth is stronger.

On page 6 we have our net interest margin which is much more stable. The changes that you have seen here most of it is due to the mix, but it is pretty much stable overall. When you look at the full net interest margin with clients we have to make the comment that we have increased at the end of the year our funding from clients. This is very good in terms of creating a larger basis of clients on deposits, it is important for the future of the bank and this has, on the other hand, decreased our net interest margin when they calculated as a percentage, because of this additional funding which we have been placing basically in Selic rate. When we basically make the numbers assuming that we would have no additional funding available in the last quarter compared to 3Q11 the number would be more in line with what we would expect. So this is quite important. Our reduction in the NIM in the last quarter was an important extension because of the lower Selic and the additional funding increasing liquidity for the bank.

On page 7 we can see our ratios on credit and allowance. In general the NPL over 90 days has increased over 20 basis points; but on the other hand the 15 – 90 days NPLs have been reasonably stable over the quarter and is with the trend to go down. This is clearer when we look at individuals, which has clearly improved the rate over time. We are confident that we have already achieved a good underwriting quality for individuals and for vehicles portfolios and so we believe that is a trend we will see very solid in terms of improving NPLs for individuals. On small companies mainly and also on corporate the NPL ratio has been more stable both on the 90 days and on the 15 – 90 days; but we would like to see this in a lower level. So we are still working in order to



have improvement in this portfolio. It is important to understand that the last semester overall we had a very low economic growth activity. Last semester probably the Brazilian economy grew very close 1%, which is a very low level and this really has affected the quality of credit in general. But on the other hand the good news is that we expect growth to improve in 2012 over the year. Especially in the second semester of 2012 we believe that the economy will be much more active and so we will probably see an improvement on credit quality conditions overall. When we see the provisions on loan losses it has been quite stable over the last quarters and I would like to call your attention on the right side down here, the balance of allowance for loan losses, showing you the numbers that we have split here: we have in blue additional to the central bank requirements provisions. And in the orange we have two numbers: the number below is the number that we allocate for the loans that have already been 100% provisioned. We see over time that most of the increase on loan losses that we have seen is on loans that are already 100% provisioned. When you look the amount of provisions that you have for other types of loans that are not fully provisioned we have been increasing also the volume, which means that we are not reducing the quality of coverage that we have over the portfolio.

And this is very clear when you look credits ratio on the next page and the line in orange shows very stable level provisions, when you take into consideration only E-G ratios of credit as a percentage of provisions we have for them. So we have been keeping a higher level of the same policy for the full period. We have not changed anything and we are not reducing provisions for the future. We are keeping the same level of provisions for the same level of delinquency, but we cannot increase provisions over loans that have already been 100% provisioned. Since the volume of loans that has been 100% provisioned has been increasing, the total ratio - which is the blue line - has been showing a decrease. But overall it is pretty much stable, we are keeping the same level of coverage that we always had.

The next page basically is the highlight on the shareholders' equity and assets, the growth that we have enjoyed.

The next page we are talking about funding and assets under management. We have shown very strong growth in funding with clients of the bank. In the last quarter we grew 8.7% and the result of this is a great relationship with clients, a solid base of deposits for the future; but on the other hand we had a higher level of liquidity that has contributed to the lower level that we are carrying on. Obviously we have a positive spread on this, but not as positive as the spread that we have on other types of relation with clients, especially loans.

In the liquidity level of the bank, which is seen on the next page, is very strong. It has improved as we can see here from the numbers, this growth on the deposits. We have improved the liquidity position of the bank. Currently we are already complying with the liquidity index that Basel III is indicating as



objective for the future; but we are already complying for those two indexes of liquidity in a very comfortable way for the bank.

Next page we talk about the evolution on banking fees and result from insurance, pension plans and capitalization. On the side of fees, the credit cards, last quarter of 2011, was very strong, as always in the last quarter of the year given seasonalities and this has pushed our revenue total fee income to a growth of 5.5%. But especially I would like to show you the number of results coming from insurance and pensions and capitalization that has a strong growth in 2011, 29.3%, especially in the last quarter. We are putting more emphasis on the insurance business here. When we talk about results from insurance we are meaning premiums, less loss on insurance and also deducting the commercial expenses. So the contribution of insurance is increasing in our business, which is very positive.

On the side of expenses I think we are doing a good job. We are very much committed, the bank is fully committed with this objective of 41% efficiency ratio and we have already seen signs here in the last quarter of this commitment: non-interest expenses have increased only 1.7% in the 4Q11 and 9.5% in 2011, but that trend is lower than 9.5%, as you can see in the last quarter of 2011. Again, we are really very much committed to this level of 41%. We have a lot of plans here inside of how we will achieve the numbers and we believe that given a reasonable scenario without a major crisis in Europe or something like that, we will have the conditions to achieve the 41% level at the end of next year. But overall you can see here since we announced the merger with Unibanco the evolution of total expenses in this period. The evolution was very much controlled, we basically grew on the basis of inflation and you have to remember that during this period assets have grown more than 40%; transactions in volume have grown probably more than that and so we are gaining efficiency and we believe that we can gain even more efficiency in the future, as we announced for 2012 and 2013.

On page 15, the segmentation highlights. I do not have any special comments on that. All business lines are making money and we believe that including the ones that are suffering a little bit more like, small companies and vehicles we are on the positive side of the equation, which is good, and we believe that we can prove those businesses for next year.

On page 16 as a contribution for the net income you can see that we have reduced the contribution of the last quarter of 2011, coming from market gains in the Corporation and to have improved especially insurance, we have improved Itaú BBA and consumer credit in the last quarter. I think this is a good thing, improving the quality of gains for the company.

On the side of capitalization, on page 17, we have a stronger capitalization. We are very comfortable with the levels that we are currently enjoying. We believe that we would not need additional capital for the bank to face the Basel III requirement. We are already complying with most of the



requirements and the timetable that they are announcing for complying with everything is quite comfortable for us.

Our market capitalization is evolving more like you can see in this screen here. It has reduced a little bit in the last year but it is coming back. More recently we are happy about the price level that we have been gaining and I would like also to comment that although we are focusing a lot on expenses and gains and we are more focused on efficiency, which means that we are also looking for the top line.

Going to page 19, branch network. We are not happy seeing we would reduce the potential growth for the bank; we are opening branches and in the last quarter of 2011 we opened 82 branches over all, branches in cities, medium-sized cities starting with 50 thousand inhabitants, most of it in capitals and big cities of Brazil and so we are keeping our strategy of growing the bank, growing the branch network. We believe next year we will still open additional 150 branches and this is also considered in the guidance that we are giving in terms of expense growth. So we are controlling expenses, but not cutting growth.

Let me go for this next screen that shows what was the guidance that we gave for the market for 2011. Credit growth we expect something between 16% and 20%, we delivered 19.1% and so we are pretty much in line with the guidance. We had a slight increase in NPL levels and we announced this, 70 basis points. I believe this was in the higher-level of the expectations but still in line with the expectations. Banking services we were not able to achieve the numbers that we were announcing, we were behind that number and we are putting emphasis for the next year in order to have a stronger growth in this line. In terms of expenses here are we over delivered. We were announcing something between 10% and 13% and we could deliver 9.5%, so this was a good thing. On the efficiency ratio side we were not able to deliver what we had announced. The revenue did not grow as we expected but the main reason was much more a question of timetable because when you compare fourth quarter against fourth quarter we are more than enough above what we believed. When you compare the last quarters of those two years, we can see that we had to divert 460 basis points of improvement, which shows that we are still in line with the timetable for the end of next year.

What we are announcing in terms of expectations for 2012? Credit growth will be something between 14% and 17%. It is important to notice that we are announcing this number because that is what we believe for the market. We are planning to grow according to the market; we are not planning to gain share, but we are not considering losing share. We are basically announcing something very close to market growth. In terms of NPLs we believe that we will have some increase in the first semester and some decrease in the second semester, so at the end of the year we will be pretty much at the same level that we are today and so this is what we expect to have for the year. In terms of increase in fees and the results of insurance we are announcing a



10% to 12% growth and most importantly we are announcing a 4% to 8% growth in non-interest expenses. We are very much confident that we can keep growth of expenses at those levels, which are pretty much in line with inflation - although assets and transactions will be growing like 15%/year. So we are gaining efficiency and for the year we believe that we can have an improvement in the efficiency ratio of 200 to 300 basis points for the full year of 2012.

Before we start the questions and answers session I would like to make some comments on Redecard, what is the rationale of our offer for Redecard. In terms of the bank I believe that this is the driver: this will give us more flexibility to talk with merchants, will give more flexibility in terms of making our offer richer and we have today a lot of issues between the bank and Redecard, issues in terms of what is the price for services. We have different shareholders, we have to be very careful on that and this reduces our abilities to do things in the speed that we would like to do. So this would give us more flexibility in terms of timing; in terms of offering up things that we can do offering those services for clients. I believe that the offer that we are doing is a very fair offer. We are offering R\$ 35 per share, in the next page you can see the numbers of Redecard that is a great gain for the shareholders. We are also analyzing the fact that we are also offering a dividend, of R\$ 1.1 per share that has already been announced in terms of balance sheet of Redecard. Our offer is "ex" this dividend and so the shareholders will receive the dividend before the auction that we will do for the R\$ 35 per share for this additional gain for shareholders and overall gains are quite important, much above BM&FBovespa on the next page, as you can see. In dollar terms it is even higher than that and so I think it is a fair transaction for shareholders. We believe that it is pretty much in line with the return for investment ratios that we see for the company and so we are very confident that this is a good move for shareholders and for Itaú as well. Thank you for listening to me, just one more thing about Redecard, we are announcing the withdrawal of the Novo Mercado segment.

So now I would like to open for questions. Alfredo is here, there are people from Itaú BBA, from the accounting side, Rogério, Marcelo, and we are all here.

### Q&A Session

**Mr. Carlos Macedo (Goldman Sachs):** Good afternoon gentlemen, thank you for the opportunity of asking questions. Actually both of them will be related to Redecard, whether impact that Redecard will have, the tender offer could have on Itaú. The first is we noted this transaction would generate a substantial amount of goodwill in your books. I was wondering if you have already done calculations as of what the impact will be for your Core Tier I capital, the basic capital, as per Basel III regulations given that goodwill that is



generated after December 31, 2011 is not deductible or is deductible from your Core Tier I capital. I was just wanted to see what the impact would be. The second one you mentioned that this would be neutral to results; could you give us some color on that? Because the math that I do adding the 50% of earnings from Redecard minus the amortization of goodwill minus the opportunity cost of the cash that you are going to use to buy the shares I get a R\$ 500 to R\$ 600 million decline in earnings. So I just wanted to see how you are coming up with that number. Thank you.

**Mr. Roberto Setubal (Itaú Unibanco):** Ok. I think I do not have the numbers here and it would be very difficult; but later you can look after Rogério and he might discuss the details of numbers we are talking about. This has to do also with the issue of amortization of goodwill. We do not have a clear, perfect view about amortization of intangible since the goodwill, as you mentioned, is not possible to amortize. We believe that there will be some intangible to be amortized. We do not have a clear view on those numbers but we believe that there will be an important and probably major part of the total that will not be amortized. In terms of Basel numbers, if we had a full Basel III today we would have to deduct the full goodwill and intangible from the capital base. But Basel III has a timetable to phase in from today until the year of 2019. We believe that the peak of Basel III for us in terms of capital allocation will be 2016 and it is less than 1% of the ratio, it is about 0.6% of the ratio of the bank today.

**Mr. Carlos Macedo (Goldman Sachs):** Ok but the tender offer and the goodwill generated would have a negative impact on your basic capital ratio under Basel III.

**Mr. Roberto Setubal (Itaú Unibanco):** Under Basel III yes; but this, as I mentioned, is a small impact, 60 basis points, which the peak is in 2016 or 2017. It is something like that. Today it is lower than that.

**Mr. Carlos Macedo (Goldman Sachs):** Ok thank you.

**Mr. Roberto Setubal (Itaú Unibanco):** Rogério can also make up the numbers with you if necessary.

**Mr. Carlos Macedo (Goldman Sachs):** Ok perfect, thanks.

**Mr. Jorge Kuri (Morgan Stanley):** Hi good morning everyone. I have two questions on Itaú and one quick on Redecard. On Itaú the first question is on your guidance you mentioned a credit growth of 14% to 17%. Can you give us some color on what your expectation is for financial income growth? We are seeing that margins are coming under pressure through the declining Selic and that may continue throughout the year, Selic heads even further down. Are you expecting financial income to grow less than the 14% to 17%? Can you give us more or less or range?



**Mr. Roberto Setubal (Itaú Unibanco):** Ok Jorge. How are you? Yes. We are expecting margins to be in terms of growth below loans. The decision our minds, this is part of our budget and our plans. I will not get into details but we believe that margins will squeeze a little bit - not as much as on the spread side for clients in terms of loans; but something due to the lower Selic and partially because of the mix, ok?

**Mr. Jorge Kuri (Morgan Stanley):** And is there any guidance you are providing in terms of financial income growth?

**Mr. Roberto Setubal (Itaú Unibanco):** No. We are not providing guidance on that. The guidance that we are providing is exactly those five that we have announced.

**Mr. Jorge Kuri (Morgan Stanley):** Ok great thanks, thank you. The second question on Itaú is on asset quality. You had guided towards a peak of asset quality in 3Q11 than in 4Q11 and now you are actually saying that you are going to see asset quality steel deteriorating in the first semester of 2012 and probably peak, I guess, in June, July this year. What is happening? I mean, certainly we did see a deceleration of the economy; however we still have full employment and real wage gains. How is that not translating into an improvement on asset quality and why does the target keep moving ahead? Can you just help us understand what the underlying problem there is?

**Mr. Roberto Setubal (Itaú Unibanco):** There are no new problems first of all. I think what you mentioned is very important, let us talk about individuals and talk about companies. In terms of individuals, the new vintages of credit that we are seeking, I have great quality and we are confident that over time this will improve, but some of the portfolios are longer, you have for instance vehicles is a long portfolio and so it takes some time for you to fill it in terms of NPLs over 90 days - but we are very much confident that this was one of the problems of this year and the quality that we are generating from the second semester on is much, much better than what we were generating in the first semester or before that, ok? This was in terms of individuals the portfolio that was hurting more our numbers in terms of delinquency. In terms of companies I think that the issue of the economic growth, although it has slowed down a lot the laborer level has not changed in Brazil and so people did not lose their jobs and so this did not affect as much the individual's portfolio. But on the company's portfolio, especially small companies, we had much more difficulties because the economy was much slower than we expected and much slower than we planned and this is the main reason why we have been moving ahead improvements for targets, in the two directions: the slowdown in the economy - in the last quarter was zero growth - this affected not only the quality, the capacity of companies to pay back the loans but also the growth and demand for loans. So we were affected and that is ratio on both sides when we came to that. We are not at the peak and we see some improvement, some increase in this NPL over 90 days for the next semester. But we believe that the condemnation of what we have already done in terms



of controlling the quality of new loans and the improvement in the economy will have an improvement at the end of the year in terms of delinquency. This is basically the story, Jorge.

**Mr. Jorge Kuri (Morgan Stanley):** Thank you very much and just one really quick clarification on Redecard: in the press release where it states that it is neutral in terms of results for the next two years; does that already include an assumption of tax benefit or the tax benefits - if they appear - they are separate to this view of the deal being neutral? Or is it already included there?

**Mr. Roberto Setubal (Itaú Unibanco):** Look, we have not fully analyzed and concluded the tax effect on Redecard. It might have some impact but it is very small. The impact of tax is basically very, very small in the next two years - if it has some, ok? Small in terms of an impact on the bank. I would not count too much on that.

**Mr. Jorge Kuri (Morgan Stanley):** Ok thank you very much for that time, thanks.

**Mr. Mario Pierry (Deutsche Bank):** Hi everybody, thank you for taking my question. Let me ask you two questions as well, Roberto, both of them related to Itaú. First on your cost improvement that you are guiding for the efficiency improvements, part of the improvements we have seen in your expense base has been related to headcount reductions since 1Q11 and so I was wondering if you have a specific target of headcount reductions over the next two, three years or should we expect improvements to come from in the future? And then the second question is also related to your BIS ratio. You were recently quoted in the Brazilian papers saying that you wanted the Brazilian Central Bank to be more flexible. Your interpretation of the Basel III with regards to the deferred tax credit due to created temporary differences. I was wondering when should we expect the final announcement from the Brazilian Central Bank with regards to Basel III and what are your expectations with regards to whether or not you can be allowed to use deferred tax credits from temporary differences as part of Tier I Capital? Thank you.

**Mr. Roberto Setubal (Itaú Unibanco):** In terms of efficiency ratio I think that they are very much confident on the expense side – that expenses will be in the range that we announced. I think that 8% is a number that we believe that only a disaster would cause an increase above this level of 8%. We are very confident that they can be in the range that we are announcing. So efficiency ratio in this regard will depend much more on the growth of revenues, which we have a scenario. There is some uncertainty in this scenario but we believe that the basic scenario that we have ahead of us, is a scenario that will deliver this kind of efficiency ratio, although in this scenario we have some problems in Europe, I think some risks in Europe that might change the overall conditions. But I am pretty much confident that on the expense side we will deliver; on the fee service side we will deliver; on insurance we will deliver.



We are not so sure about what would happen if conditions in Europe gets worse than what we have today - although it can get much better, which would be even better news for Brazil and for the conditions in our market overall. The second question relating to Basel III there is a timetable that phases in the new capital requirements for banks. This goes from next year until 2019. We are fully comfortable that the bank will be able to comply with all the requirements of Basel III and any conditions in the timetable they have announced. I think the Brazilian market has one peculiarity - as many other markets have different peculiarities - which are the question about the provisions on loan losses, which is not deductible at the moment we made them, they are only deductible on the road and so this creates a different situation. Italy had a similar problem and they have created a very special thing for them. So I think we have to discuss this issue about the credit tax deferment and find a solution for that so that we do not have in terms of market a major impact. In our specific case we believe that we, on the timetable of Basel III, we will be able to comply even on the issue of tax credits. We believe we will be able to comply on the timetable that they are announcing.

**Mr. Mario Pierry (Deutsche Bank):** Ok let me just follow up then on your expense guidance when you are basically saying that your expenses should be growing roughly in line with inflation, even though you are going to be growing your loan book much faster. So what I understood is that you do not foresee meaningful space to reduce headcount in the future, is that right?

**Mr. Roberto Setubal (Itaú Unibanco):** We do not have an objective of reducing headcount; we have the objective of reducing expenses. In some cases it will end up reducing headcount, but this is not an objective. It is much more reducing expenses. And on the other hand we are still growing the bank. We do not want to basically control expenses; we want to control efficiency and we want to keep growing and, as I have mentioned to, you we have basically opened 82 branches in the last quarter and we are announcing that we will be opening another 150 branches during the year of 2012 and this, I mean, we had additional headcount for that in some areas, because we are increasing business volumes and other areas where we are putting more efficiency and so we had some reduction on some other areas. But there is no meaningful program or objective to reduce or to achieve a certain number of people in terms of headcount.

**Mr. Mario Pierry (Deutsche Bank):** Very clear, thank you very much.

**Mr. Saul Martinez (JP Morgan):** Hi, thanks for taking my question. I have a couple of follow-ups on Redecard also and the first question is maybe a little bit of a delicate question to be frank and with Redecard's price trading, last time I checked slightly above their offer price even factoring in the dividend of R\$ 1.1 per share, if the market seems to be indicating that they believe that there is a decent probability that Itaú will up their price in R\$ 35, and I wanted



to get your feedback on how he would think about it if it becomes clear that you will not be able to get the two thirds approval for the offer; are you willing to step away from the transaction and how would you think about the possibility of having to increase a bit? And then secondly I wanted to get some clarity on the Basel impact and square away you I heard to in response to Carlos Macedo's question and what I heard on the Portuguese call: is it fair to say that under Basel III fully loaded - which would be 2016 there would be a 60 basis points negative impact - I also heard on the Portuguese call that it could be slightly positive under Basel II; could you just elaborate? Is my understanding correct and if you can just elaborate on how the impact would work under the existing capital rules.

**Mr. Roberto Setubal (Itaú Unibanco):** First on price we are not considering at all changing the offer and we believe that we will be able to achieve our objectives. On the number of Basel III there is a timetable that phases in the impact and the peak of the impact will be, I think, in 2016 or 2017 - I am not sure - and it will be something around 60, 70 basis points more or less, maybe less than that. I would say something in between 50 and 70 basis points and it has to do with the timetable of the amortization of the intangibles, so it is not a precise number. But it is something we have taken into account and is part of the discussion and we believe that we have a room for that in terms of capital in the bank. Today we do not have Basel III, so we have zero impact coming from Basel III. Basically we are talking about Basel II, which rules today. We will start having Basel III impact next year and the year after, which are minor because they are starting to phase in and as I mentioned it will phase in as we amortize part of the total price. This is the reason why we have 60 basis points more or less of expected impact on the BIS ratio.

**Mr. Saul Martinez (JP Morgan):** Ok and under the existing capital rules there is virtually no impact on your capital ratio.

**Mr. Roberto Setubal (Itaú Unibanco):** It is small; it is something between 20 basis points more or less.

**Mr. Saul Martinez (JP Morgan):** 20 basis point reduction under the existing rule. Ok right. Great, thank you very much.

**Mr. Jorg Friedman (Bank of America):** Thanks again for taking the questions. Just to follow up on the potential goodwill amortization. We are aware about all the limitations; but I just would like to understand the potential schedule for goodwill amortization. We remember that in other occasions like when you merged with Unibanco or a quiet Bank Boston you usually amortize everything on one shot. So just so would like to understand if you had any goodwill to amortize if you would do it again or if you would amortize over a longer period of time, ok? And then I will do my second question. Thank you.



**Mr. Roberto Setubal (Itaú Unibanco):** Ok. We are not planning to amortize fully at this moment. Basically we have a new accounting rule in Brazil which is the international accounting rule, the IFRS rule, and to comply with IFRS we would not be able to amortize and hit upfront. So we have to comply with that and this is our consolidated balance sheet we are carrying on with IFRS rules and so this would not be possible to do.

**Mr. Jorg Friedman (Bank of America):** Very clear and the second question about the devolution of your balance sheet. As you mentioned in the presentation the evolution was noticeable. So could you elaborate a little bit more on the strategic decisions that led to the surge on high quality and deposits in the quarter and what you expect for deposits evolution in 2012? Specifically should we consider that the loan/deposits ratio has further room for improvement during this year? Thank you.

**Mr. Roberto Setubal (Itaú Unibanco):** Well, in terms of results the impact is very minor because margin on deposits is quite small and so the overall impact is small on the results of the bank. I do not have a number here to give you in terms of how this ratio between loans and deposits will evolve; but probably, basically we do not think it will change in a significant way.

**Mr. Jorg Friedman (Bank of America):** Ok, so no specific action that you did in 4Q11 that led to the surge in deposits, right? Because as long as I can see, you have been improving not only in an absolute basis, but also comparing to your peers during the quarter. So you gain, it seems, market share in terms of deposits in the quarter.

**Mr. Roberto Setubal (Itaú Unibanco):** Yes, pretty much.

**Mr. Jorg Friedman (Bank of America):** Ok thank you.

**Mr. Marcelo Telles (Credit Suisse):** Hello gentlemen, thanks for the opportunity. My question is a follow-up call to a delinquency question. Is it fair to say that maybe delinquency rate is probably going to deteriorate if not in 1Q12 in 2Q12 and then stability after that or you think 1Q12 will be the peak? And my other question is associated to the same one, it is regarding provisions. Given there is one slide in the presentation, where you show that the coverage had to come down because loans were not ready, you could not go above 100% coverage - which I understand - but that means that maybe in terms of provision expenses in 2012 we should see them basically growing at a lower growth rate than the loan portfolio itself? Thank you.

**Mr. Roberto Setubal (Itaú Unibanco):** It could be 1Q12 or it could be 2Q12 in terms of peak of ratios, we do not have it very clear. I think it depends on market conditions. It depends also on the dollar ratio because, as you know, this impacts the portfolio. So we are talking about small differences and small differences might change with the dollar number because it affects them 20



basis points easily the NPL ratio, the variations that we have seen on the dollar side. So I am not so sure about what would be the peak in terms of dollar ratio, ok? As I mentioned we do not have a month that this will change. It is overall trend. We believe that the trend is the one that we have described already: it is some increase in the first semester and some decrease in the second semester and the end of the year of 2012 pretty much on the levels that we are seeing today. Basically this is what we expect. I do not have too much more information to give you at this moment.

**Mr. Marcelo Telles (Credit Suisse):** Ok thank you.

**Mr. Victor Galliano (HSCB):** Thanks for taking my question. Just on margins looking at that slide on page 6 of the presentation when you look at that NIM of the kind of normalized basis 11.4%, if you can just go through the kind of rationale of how you arrived at that 11.4%; is that normalizing for Selic and also for the cost of funding? Is that what you are doing there? And if Selic is coming down and you have grown fast in time deposits, then I do not get why the actual margin has diverted from this normalized one. Can you just clarify that, the explanation you gave?

**Mr. Rogério Calderón (Itaú Unibanco):** Victor this is Rogério Calderón speaking. The way we calculated that was to make the loan/fund stable when comparing to 3Q11 and also the Selic not moving during the quarter. That is the way we came up with this 11.4%.

**Mr. Victor Galliano (HSCB):** Ok. So it is keeping the loans/funding ratio the same.

**Mr. Rogério Calderón (Itaú Unibanco):** Yes.

**Mr. Victor Galliano (HSCB):** So would it be fair to say that you are a kind of frontloaded here a little bit in terms of the funding and your growth in deposits and we will see that approach the 100% ratio again heading back into 1Q12?

**Mr. Roberto Setubal (Itaú Unibanco):** I would not say that. I think that we are trying to be below that level of 100%.

**Mr. Victor Galliano (HSCB):** Ok and just a quick follow-up if I may on renegotiated credits and willing back into the credit quality. We saw that increase again as a percentage of the total portfolio in 4Q11. Would you expect to see that normalized or should we say stabilize into 1Q12 and 2Q12 and follow the line that you expect in terms of the credit quality cycle that you are talking about?

**Mr. Roberto Setubal (Itaú Unibanco):** Look, we are talking about small variations which are very difficult to make it very precise. Basically, I think the best indication that we can give you is what we have in the 15 - 90 days NPL.



This is what we can expect in terms of impact for the next quarter. I believe that as the economy improves this will give us some additional gains in terms of quality on the company's portfolio and the individuals I think that trend is very clear. I think that we probably will keep on growing this trend of improving quality.

**Mr. Victor Galliano (HSCB):** Yes ok, thank you.

**Mr. Boris Mollina (Santander):** Good morning, thank you for taking my question. Two questions: a follow-up on Redecard. Have you made an estimation of what is the potential cost savings it could achieve when integrating Redecard's operations into Itaú's infrastructure? I would guess that a substantial amount of general and administrative expenses could be incorporated into the existing infrastructure - we are talking about call centers and accounting and operating systems - this could have an important impact in terms of how you view this transaction in terms of value creation. So have you got into any sort of analysis in terms of synergies that you could get out of Redecard? And I have a follow-up question on capital but to let this get this out of the way.

**Mr. Roberto Setubal (Itaú Unibanco):** There are some synergies. They are not that meaningful in these transactions especially because the data center of Redecard is inside Itaú already. We already provide them with a lot of services, so this is already in-house. There will be no gains coming from, for instance, technology mainly because we are already doing most of the services, which is probably the main line of expenses on Redecard if you do not consider commercial expenses. In commercial there will be no big synergies given the fact that we will keep the company alive in terms of operations and so we are not foreseeing that much synergy. Yes, we will integrate the accounting and things like that; but this is not really that much meaningful in terms of making a big difference for the operation.

**Mr. Boris Mollina (Santander):** So in this line I think there was a mention regarding the return on capital employed that was going to be in line with the opportunities elsewhere. What is the type of return on capital employed to that you expect from this transaction one should take into account these cost savings and potential?

**Mr. Roberto Setubal (Itaú Unibanco):** Taking everything into account and the fact that we have Basel II still today and the fact that this will phase in into Basel III over time, we have a reasonable rate of return, which means that it is above our cost of capital. But if we are talking about the return on investment, the full value that we are paying, then we would be below the cost of capital of the bank.

**Mr. Boris Mollina (Santander):** Ok that is interesting. One final question, there is little debate about this capital impact on Basel III and the phasing in of



the impact. What is your level of capital in 1Q12 under the existing rules that came out a while ago, today? Because we know that there has been a phasing in and the way that we perceived the phasing in it is basically intended to allow the weakness in the world financial system to adapt over time - and we are thinking here may be on Japanese banks, etc. - so when investors and we lists look at this we say well, what is our starting point today and what is the amount of impact that you have to make up over time and how is this going to be achieved in terms of lower growth or maybe a cut in dividend payout, etc. So it would be very useful for us to know what is the level today in order for us to start making the necessary estimates of how this is going to work over time.

**Mr. Roberto Setubal (Itaú Unibanco):** Ok. I do not have a number for you today at this moment here; but I can assure you that today we have already conditions to comply with the levels of Basel III in 2019 considering everything. Basically we would be much more close to the minimum levels but we would need no additional capital to comply with Basel III - although I have to say also that there are a lot of things that have to be more detailed. We are talking about big numbers and sometimes the devils are on the details. But our interpretation is that we are basically already complying with Basel III today.

**Mr. Boris Mollina (Santander):** Wonderful, thank you very much.

**Mr. Roberto Setubal (Itaú Unibanco):** Well thank you all of you to be with us today. We had a lot of things to discuss. I believe I could make some clarification about the guidance for this year and some explanation about Redecard. But in addition Rogério and his team will be available for additional discussions that you might have. I know that we still have some questions open, but given the time we are closing the session at this point. Thank you all for being with us, bye-bye.

**Operator:** That does conclude our Itaú Unibanco Holding earnings conference call for today. Thank you very much for your participation and have a good day.

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