International Conference Call
Itaú Unibanco
3rd Quarter 2013 Earnings Results
October 30th, 2013

Operator: Good morning ladies and gentlemen, [thank you for standing by and] welcome to Itaú Unibanco Holding conference call to discuss 3Q13 **earnings** 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 followed by zero. As a reminder, this conference is being recorded and broadcast live on the investor relations website at www.itau-unibanco.com/ir. A slide presentation is also available on this site. The replay of this conference call will be available by phone, on (55) 11 4688-6312 – access code 8549644 **hashtag**.

Before proceeding, let me mention that forward-looking statements are being made under the safe harbor of the Securities Litigation Reform Act of 1996. Actual performance could differ materially from that anticipated in any forward-looking comments as a result of macroeconomic conditions, market risks and other factors.
With us today in this conference call in São Paulo are **Mr. Alfredo Egydio Setubal**, Executive Vice President and Investor Relations Officer; **Mr. Caio Ibrahim David**, Chief Financial Officer; and **Mr. Rogério Calderón**, Corporate Controller & Head of Investor Relations.

First, **Mr. Alfredo Setubal** will comment on third quarter 2013 **earnings** results. Afterwards, management will be available for a question and answer session.
It is now my pleasure to turn the call over to **Mr. Alfredo Setubal**.

Mr. Alfredo Setubal: Good morning everyone. It's a pleasure for us to be here again for the third quarter conference call.

I think it's the best result that we released since the merge between Itaú and Unibanco. The best quarter I think in all lines. The trends are very good and we were able to confirm that our strategy, especially the strategy that we took in the last two years, reducing the risk of the company and controlling much better the costs and reducing costs, paying off now with this third quarter numbers.

For those who are following through the Internet, we are starting on slide number two the highlights for the quarter because the first one is the recurrent net income of a little bit over 4 billion, growth of 11% when we compare to the second quarter of 2013 and the total net income for the year 11.2%.

These results imply in a recurrent ROE of 20.9%; an increase of 160 basis points when we compare to the second quarter and 240 basis points when we compare to the third quarter. Year to date the ROE is almost 20%; 19,8%.

The other highlights and the loan portfolio the growth of 2.9; 10% when we compare to last year. If we don't consider the decrease in the vehicle portfolio (that's reduced 20.9% in these 12 months) the increase of the total credit portfolio would have been of 14.3%, much in line with the growth of the system in Brazil.

Financial margin with clients increase 1.7% and the total of 11.5 billion, in the quarter 33.7 billion year to date. It's a good trend that the margin with the clients for this quarter again increased and we expect this line to continue to increase after some quarters in the past it reduced due to the new strategy of reducing the costs and changing the portfolio, the credit portfolio.

Now, we are in a trend even though it's not very high growth of this line, but at least we are starting to grow, what is important for the trend and for the future of our revenues.

Financial margin with the markets this quarter is still below the average that we used to have in this line, but better than the second quarter. The second quarter was our worst results in terms of financial margin with the markets and this quarter, 340 million. The average when we consider two and a half years is around 500 million, and in the past the average was close to 800 million.

We don't see these numbers going back to the same level, but we expect that we can have better numbers closer to the average in the coming quarters.

Financial margins of credit, net of loan loss provision expenses, had an increase of 5.5%; the fourth consecutive quarter that we show a better number in this line, and the total was R$ 6.6 billion.

Good news continue to come from credit quality, we improved the 90 days NPL ratio to below 4%, we achieved a 3.9%; it was a reduction of 30 basis points in the quarter and 120 basis points in 12 months.

Another good news is that the delays between 15 and 90 days continue also to improve to a better number. The ratio this quarter finished in 3%, so it's the lowest level that we ever had, an improvement of 40 basis points in this quarter when we compare to second quarter. So, it's important because the delays that we have today (if they are reducing) show us for the past experience that the 90 days will continue to reduce in the coming quarters.

Loan loss provision expenses also reduced again in this quarter when we compare to the second quarter. The total was 4.5 billion and 14.4 billion when we compare 12 months.

Commissions and fees are also in a good trend, better than we expected at the beginning of the year. We are in a trend of almost 24% in this line including the results from the insurance, special plans and capitalization business, but anyway, considering Redecard 100% in this line, the growth was very strong and sustainable, so it's also very good news for the third quarter results.

Non-interest expenses continue to be the main objective and the main focus of the biggest part of our strategy to reduce the cost and to increase the ROE. This passed through a better control of expenses and in this quarter the growth was 0.9%, also a good number.

And when we adjust the Redecard numbers full consolidation and adjusted basis of last year to compare to 2013, when we already had 100% of Redecard, the growth was 4.4; in line with the guidance that we showed at the beginning of the year.

Considering all this – revenues and losses and expenses and everything compounded – the risk adjusted efficiency ratio improvement to 370 basis points in this quarter and 340 basis points when we compare nine months, in line with what we were expecting (here is a risk-adjusted considering the NPLs and the claims for insurance).

On slide number 3 we see the results of the bank for this third quarter with much better numbers, as I mentioned, in terms of financial margin with clients. and loan losses provision expenses. We continue to expect both lines to improve in the coming quarters.

Margin with clients increasing, showing growth again and some more reduction in loan losses expenses are also better, and we continue to control the operational expenses as part of a strategy to continue to grow the results of the Bank in the coming quarters.

On slide number four we can see the banking and insurance operations split. We can see that from the ROE's recurrent net income of 4.022 billion, 3.027 million came from what we consider the banking operations and the 618 came from our insurance operations.

Insurance continues to be a very good business, we continue to increase our bank insurance business and products and with a very good efficiency ratio and ROE of 26.5 for the insurance business and efficiency ratio of 32.3. So, it is a good business and we will continue to pay a lot of attention in this bank insurance product.

On slide five we see the net interest margin that continued to reduce in this quarter, achieving 10.9. Good news came from the net credit spread (the green solid line) that continued to improve. We achieved a 6.9 one year ago, and now it's 7.4. So we are in a much better position and, of course, it helps in terms of results.

On slide six we see how the margin increased in this quarter. We finished second quarter 2013 with R$ 11.3 billion, the loan volume improved revenues in R$ 280 million, the impact of the SELIC rate is almost R$ 200 million in terms of financial margin. More calendar days (two days more in this quarter) also we were able to appropriate more revenues. That is the positive lines of this financial margin.

Now the negative. We continue to have some impact in the product mix of R$ 180 million, reducing the margin, 220 related to client mix, as we are changing the mix of the portfolio and products and other small numbers totalizing R$ 85 million. So, that explains how were the components of this R$ 11.5 billion in terms of financial margin with the clients in this quarter.

In the bottom of this slide we can see how the loan portfolio main mix changed. That explains, as I mentioned, part of this impact in the financial margin with the clients. So we continue to increase in large companies, we continue to increase payroll business and mortgages as part of our strategy of reducing the risk of the credit portfolio and, of course, this has some impact in terms of revenues because we are operating with lower risk clients and products.

On slide seven, financial margin of credit and loan losses provision expenses. We see that the total was R$ 9.8 billion, 3.2 was related to loan losses provision expenses net of the recoveries that we achieved in this quarter.

On slide eight we see the financial margin with the markets. As I said, these numbers are reducing in the last quarters, much more difficult in terms of doing play in the market in terms of results. The average of these periods, since the fourth quarter of 2011, the average of these lines was almost 500 million, as I said it was almost 800 some quarters ago. And this quarter was better than the second quarter: we achieved 340, but below the average, the recent average for this line. So let's see how we will be able to play in the market both in terms of proprietary trading and structural positions of the Bank in terms of hedging, funding and liability.

On slide number nine we see commissions and fees and results from our insurance business. We are very happy with this line, the numbers are much better, clients are using more services of the Bank, we were able to sell better and more products for the clients and also the insurance business that continues to represent an important part of the business.

As we can see on page 10, the insurance operations - remembering that we sold to Porto Seguro all the vehicles and residential insurances. What we have here is mainly the lives and insurance that we sell through our branches, but the results continue to be important and growing important and we believe that this bank insurance business will be an important part of our strategy.

Remembering also that we continue to be out of the health insurance due to the level of interference that we see in this business, given that last week government showed new regulations in health insurance obliging the companies to pay more medicine and treatments related to cancer. So, this will impact probably more these products. So we continue to be out of this and concentrating more on what we consider to be the bank insurance business.

But, anyway, we have this business and a recurrent of 680 million here including this 30% of participation that we have in the Porto Seguro’s total business, total company, that we are shareholders for the last four years.

Payroll loans, on slide 11, continue to be important and continue to grow. We achieved R$ 20.5 billion in portfolio for this product. We continue to grow especially through the Joint Venture with Banco BMG. We are growing through BMG into the public employees and retired people and we continue to be very active to our customer's side branches with the corporate employees, private corporate employees. So we are growing faster and recovering market share that we should have in this product to the size of the bank in Brazil. So, payroll loans already represent 43% of the total personal loans of the Bank. We came from 31% last year.

The mortgages we achieved R$ 32 billion, we continue to use our branches, the brokers and our partnerships with Lopes and EF Coelho to originate the business. It's a business that we like, it's growing with very good loan to value collateral in average and in recent vintages, for example we marked here the vintage of June: 71%. So we are very comfortable with this collateral. And delinquency rate of six months after the origination is very, very low, much lower than the market as you can see here in this slide. Our number is 0.17%, and the market is 0.73%. So we are in a much better position in this mortgage business.

Credit quality on the slide 13, we finished with 3.9%, the lowest level that we have always had here in the last years with an improvement both in individuals that achieved 6%, the peak was in June 2009, 8.1%. So, much lower than the peak in the last years. And the same for companies; 2.3 and the peak was 4.1% four years ago.

The coverage ratio for 90 days NPL continued to improve and achieved 170% in this quarter.

Credit quality we can see also on slide 14 that the trend continues to be very good in terms of the ratio when we consider the loan losses with the loan portfolio. I think the level of provisions continue to be very good, very comfortable. We continue to maintain complementarity provision of R$ 5.1 billion in this quarter – of course, this 5.1 billion is losing importance as we continue growing the portfolio, as that is what is happening in the last quarters.

At credit quality, when we look in terms of delays, 15 to 90 days, the numbers also are improving. We finished with 3%, coming from 3.4% last quarter, so we can expect less provisions in the coming quarters. So, when we look at these first signs for delinquency, we see that the numbers continue to improve and reduce. So, we continue to expect lower level of NPLs over 90 days in the coming quarters.

On slide 16 we can see, using 100 as a basis in March 2011, when we started to change the strategy of reducing the risk of the credit portfolio, we can see that in all lines – with the exception of vehicles – we continue to improve the quality of the credit portfolio of the Bank.

On slide 17, non-interest expenses continues to be very focused the object of the Bank to control as much as possible look below the inflation level and we continue to target this in the coming years. But, anyway, this quarter the improvement was 0.9%

when we compare with last year, considering Redecard as a full consolidation. 2012 and 2013 the growth of expenses was also below inflation, at 4.4%.

Risk-adjusted efficiency ratio, on slide 18, we continue to improve the efficiency ratio adjusted (adjust here means that we include here the claims for insurance and also the NPL over 90 days). We are in a trend of reducing this ratio to the level that we expected this year in terms of guidance.

We have some work to do, of course, in the traditional efficiency ratio, both in terms of revenues and (0:25:16 background noise – inaudible) expenses that we see some room to cut more expenses in the coming quarters.

On slide 19, the total assets of the Bank, finished at R$ 1.082 trillion and the stockholders equity 78.2 billion.

On slide 20 we see the composition of the loan portfolio. As I mentioned, we continue to focus the growth on payroll loans, mortgage and corporate. We still see a reduction in the car financing products. We expect this reduction to continue until probably mid of the next year and we still see some reduction in the very small and small companies that we continue to reduce. And when we look at the middle market, typical company at this portfolio is growing. Slowly, but it's growing. What is making the reduction in this line of 4.1% in 12 months is more related to very small and small companies.

We still have corporate private security of 24 billion and also endorsements securities. So, if we consider all of this as credit, the total credit portfolio, the total exposure for credit in our numbers achieved R$ 481 billion, what means a growth of 10% when we compare to last year.

If we exclude the vehicles financing that we have been reducing (and will a lot) in this portfolio, the growth is 14.3% for this; what's in line with the growth of the credit portfolio of the financial system in Brazil, as numbers released by the Central Bank.

Funding and assets under management and capital of the Bank totaled 1.5 trillion; a very comfortable position in terms of money from our clients in assets and funding.

We can see on page 22 that loans-to-funding ratio is 94%, so, very comfortable. We don't see funding as an issue if we decide to grow more the credit portfolio in the coming quarters.

On slide 23 we see the changes in the quarter in our stockholders equity. We started at R$ 75.8 billion; the profit of the period, 4 billion; interest and dividends that we paid for shareholders, 800 million (reducing the stockholders equity); assets valuation of this long position securities (public securities) impacted R$ 200 million in this quarter - very low compared to other quarters -; and we bought back shares in the period of 400 million, reducing also the portfolio; other things 100 million.

So, that explains the growth of 3.3% of the stockholders equity in the quarter when we finished with R$ 78.3 billion of stockholders equity.

It's important to mention that we bought back this year 23.5 million shares – nonvoting shares – and the average price for this acquisition was R$ 28.18.

On page 24 the BIS ratio, 17.5. It's a very comfortable position. We have here to face the growth of the Bank, the credit portfolio. It appears a good opportunity in terms of acquisition and also to face the new adjustment that we will need to do in the coming years in terms of Basel III implementation. So, we consider this level very comfortable for the coming years.

On slide 25, recurrent ROE. If we take off the market numbers, treasury, we see that the client business ROE achieved 22.7% and it's growing since the second quarter of 2012. So, I think it's important to separate the client business from the market operations. So we see a very solid business in terms of client-oriented products and services, what is important in terms of sustainability of our returns for the coming years.

Market capitalization achieved a R$ 171 billion. It's important to notice that this year the level of the transaction and liquidity of Itaú shares is very well balanced between the Bovespa and New York Stock Exchange, the ADRs, our ADRs that are traded there. This year, different from other years when the liquidity was more in the NYSE, is very well balanced in Bovespa and NYSE.

On page 27 we see the split of our numbers between these four traditional segments that we are used to show in these conference calls. Of the R$ 4 billion in terms of net income, 1.8 came from the commercial banking; 428 came from the retail consumer credit; wholesale banking Itaú BBA 1 billion; and markets and excess of capital R$ 737 million.

On page 28, we show the IFRS numbers that we are releasing to attend the demand from Itaúsa, that is applied to share the numbers of the Holding company in this accounting. And it's interesting to see that in IFRS our profit is R$ 4.3 billion and our ROE increases from 20.9 to 21,9. So, we get some different numbers when we analyze through the IFRS.

On slide 29 are some information about our credit card numbers and merchant service. We announced some changes in the Hipercard business. We reduced the brand to Hiper, so this will be the new brand and we will start to really be more active in this brand and we will continue to have it Hipercard brand for the customers of Walmart that remain with the Hipercard brand to use their card. But we are expanding the business of this new brand.

Hiper in the credit card business in Brazil, is a brand that has almost 5% of market share and we want to increase this brand also throughout the country. Today it's very concentrated in the Northeast area and the South of Brazil.

We changed the name of Redecard as part of the new strategy of the company to start to be more active and more aggressive in terms of the business that we have 100% now. We also launched new products and we are really starting from now on to be more active with Rede, as we mentioned. And this was our strategy when we announced the intention last year to buy the minority shareholders of Redecard.

So, now we are in the trend of being more active in the company with new products, new technology, and new brands. So it's important to use the synergies between Rede and Itaú Holding.

Itaúcard is our brand in terms of credit cards and just to give you some numbers we are totally focused on Itaúcard 2.0. That is the card that charges clients that use the credit from the date of the use of the credit card, and not from the date of the statement, and we have around 1.5 million cards. We consider this product a very good success, and it has a very good acceptance from the clients, low claims. And we are only selling this card, not the traditional one that other banks and companies still sell. So, we are very happy and we will continue in this trend.

On slide 30, the outlook for 2014. We are not changing any of these guidances. We continue to expect the loan portfolio to grow between 8 and 11% (the growth now is almost 10%, 9.9). Loan loss provisions the guidance was 19 to 22 billion, we continue to expect, and now very close to the 19 billion (maybe a little bit below that number), let's see the fourth quarter. Commissions and fees that we expected 15 to 18 is growing above these numbers. Probably this level that we already have is the level that we will finish the year. So this will be above our expectations through more use from clients and also from Redecard and other business.

Non-interest expenses grew from 4 to 6%, when we adjust the Redecard numbers last year. This year the growth is 4.5, so in line with our expectation. And also the risk-adjusted efficiency ratio, we were expecting an improvement of 200 to 400 basis points, we are at 340, so we are in line also with this risk-adjusted efficiency ratio.

And to finish we have, on slide 31, a public presentation of the Bank here in São Paulo for those who will be here on November 12, at 2 PM, at Rosa Rosarium. We are having this public presentation in the presence of our Chairman Pedro Moreira Salles and the CEO Roberto Setubal.

So this finishes our presentation and we are here open to questions that you probably have.

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 Mr. Daniel Abut, with Citi.

Mr. Abut: Good morning Alfredo. A couple of questions. Number one on the insurance business as you explained in one of the slides, this business, which is posted in ROE, so 35/36%, contributes about 15% of the bottom line of the entire group. That's about half of the contribution of your closest year. So do you have a target or where do you see that evolving and, you know, what type of contribution to the group the insurance business should have over the next few years?

And second and somewhat related to… the question is on your ROE. As you correctly explained, your ROE has been 20% for the first nine months of the year, 21% in this quarter alone, excluding nonrecurring items. Where do you see the ROE being sustained? Because if I consider some of the things that you said, such as your contribution from the market-related business still below parts and would probably trend toward the R$ 500 million contribution (that is the average historical) that insurance, probably is higher ROE business, that will continue to grow its participation than the lending business in terms of volume growth still below parts, should probably trend up. And finally that you have excess capital at the bank level and that is a driver on the ROE and that should probably improve. Where do you imagine your ROE being sustainable, once you consider all these factors, if the floor now seems to be 20/21%?

Mr. Setubal: Hello Daniel. We see the trend when we analyze the trend of last quarters and when we see the coming quarters this strategy that we are showing in terms of expenses and credit portfolio and so on. We are very confident that the level of around 20% is sustainable in terms of ROE for the Bank.

First, we have to follow close all the numbers and everything, the environment, the local economy, international and so on. But the trend seems for us very positive and I think we are showing that our strategy both in terms of banking and insurance was correct.

Porto Seguro also showed good results this quarter, bank assurance continues to grow in our numbers, the strategy of reducing the risk of the portfolio was correct, so we are not seeing anything in the short term at least that will move these kind of returns that we are showing in the last quarters and especially this quarter. We think that it's quite sustainable this level that we showed this quarter.

Mr. Calderón: Regarding the first portion of your question Daniel (it's Rogério speaking), we see insurance business outgrowing other businesses in the Bank, what should account for this proportion to increase.

However, when you consider that it’s – perhaps at first glance – only 15%, you also should consider that the other portion in the Bank is actually very strong. We operate much more lines than most of our competitors. So, when you look at the full pie, our pie is much bigger and probably better if you look at the performance.

But we do believe that this proportion is going to increase as time goes by and when you consider the insurance business itself, it's actually very similar in size when you compare the industries that we operate. Remember that we don't like and we don't operate in one of the most important industries in insurance when you consider only the revenues – and I'm referring to health insurance of course.

But the size of the insurance business is going to outgrow the other portion and probably this percentage that you mentioned is going to increase, but not to reach the same 30% level or whatever, because the other business is actually also growing.

Mr. Abut: Rogério, I appreciate the answer. I was not suggesting that the goal should be the trend towards 30%, it's just to have an idea or if you have a number or a target. If you look at Banco do Brasil, for example, as part of the BB Seguridade floatation, their currently is about 15% contribution like you, and they have clearly targeted to grow that towards a 20 or 25% levels.

Do you have a target and a timing for that target?

Mr. Calderón: No, we don't have any target on this.

Mr. Abut: Okay. And just a follow-up on the first, Alfredo, you know. I hear what you say and it seems to me that the 20% should be a floor, given all the trends that you indicated. They are already a 20/21%, and both things can only get better, more likely than 20/21% should be more the floor and have room to be above that. So, when you're saying sustainable at 20 it seems that you are pulling the bar too low.

Mr. Setubal: I think it's difficult to say today that it is a floor. I think it's sustainable around these numbers. We are confident about that, but I think that we have to follow the environment, Daniel. It's difficult to really be very assertive that this level will be a floor. We expect this, yes, but…

Mr. Abut: On the environment that could potentially be a drag what are the things that still worry you? Spreads, for example? Or what are the things that still you want to monitor before you commit to a higher number?

Mr. Calderón: Daniel, could you repeat this last part?

Mr. Abut: I understand that Alfredo said that there is still too many moving pieces that need to be watched, you know, before you are willing to call a higher number. So, what are the things that still worry you in that environment? Is it spreads? Or what are the things that are still too early to say?

Mr. Setubal: I think the international environment is an issue. Probably at a certain point the FED in the US will start to increase interest rates. So, this we saw some months ago the impact that this can have in the economy of an emerging market like Brazil, for example.

In terms of spreads, no. I think it seems, at least, that the worst in terms of reduction on spreads are gone. We are not seeing today the banks fighting for gaining market share through prices, through reduction of spreads. So we can even see in some lines, in the mix some improvement in terms of spreads in the coming quarters.

But we have to follow closely the economy, the unemployment of Brazil, inflation, we have electoral year next year. So, I think that there are some things that can impact the environment, even though we consider all this not very high probability, but we have to consider all this in the scenario that we are working.

Mr. Abut: Thank you Alfredo.

Operator: Our next question comes from Marcelo Telles, from Credit Suisse.

Mr. Telles: Hello everyone. Thanks for the opportunity. I have two questions. The first one, I mean, of course we are seeing that there seems to be a change in the way, aggressiveness of the public banks, I would say in several segments of the credit portfolio.

But my question to you is: since your delinquency numbers are very good and, you know, you are very bullish on further improvements down the road, do you see any risk, particularly in SMEs' segment, of that of a pullback from the public banks could actually trigger some deterioration in your portfolio, of course, in the other portfolio that like other private sector banks? I think this has been kind of recurring theme that investors have been asking about. Do you think there is any significant overlap between your SME portfolio and the SME portfolio of Banco do Brasil or some of the other public banks?

And my second question is regarding NII net interest income growth, you know, next year. I was wondering if you could share with us what you think would be kind of worst-case scenario for NII growth in 2014? I understand there are many variables that would definitely have an influence on that and of course part of that would be what your expectations are for your treasure result, because we saw a still relatively low number, you know, versus the number you used to say about R$ 800 million. So, I don't know, with time frame, if you would expect that number to convert at least to around R$ 500/600 million if it could convert to that number? Those would be my questions. Thank you.

Mr. Calderón: Marcelo, Rogério speaking. So, regarding your first question, when we look at our portfolio we, as a result of this much more selective approach that we have been applying, what we see in our portfolio for companies' SMEs is now much stronger as a consequence, much more resilient than what we had in the past. So it's now based on operations fully collateralized or importantly partially collateralized. So we really don't think that we would be affected by any eventual change in the system as a whole.

We don't know, of course, we are not sure about the quality of the portfolio in other banks, but we don't think that it should be a matter of a systemic risk or anything like this, and definitely it's not going to affect our credit portfolio.

Your second question is of course a bit more complex. When we look at net interest income there are several different parts accounting for this evolution. You know, talking specifically on each one of them, we see the volumes slightly growing, what should stimulate NII growth. We see “Selic” to be a little bit higher than today and eventually, as a consequence, higher in average next year that this year. So, again, contributing for a higher line. And we see a still present net interest margin compression because of the change in our mix of portfolio and asset quality. So, altogether we see conditions of a slight increase in net interest income line when talking about clients.

When talking about this same line regarding what we say “margin with the markets” that's much more difficult to forecast anything. I think it's important to highlight that we don't see current conditions of being back to our historical level.

So, we believe we can perform better than what we are posting this quarter and last quarter as well, but not back to our usual level of 800 basis. This is far from what we have now because of the structural position that we have built up in the past on a lower interest rate level. So, looking forward, even performing better, we should not expect for a higher than, let's say, 500 or something like this in the coming quarters.

This is of course a big guess, but qualitatively saying it's not difficult to make two different statements here: yes we can deliver better than today, end it's very difficult to believe that we will be back to over historical levels.

Mr. Telles: Thank you so much Rogério.

Operator: Our next question comes from Mário Pierre, Deutsche Bank.

Mr. Pierre: Hi, good morning. Let me ask you two questions as well. And the first one is related to your provisions. You had originally or you had recently guided for provision charges of 19 to R$ 22 billion for this year. The number for the first nine months is running at 14 billion, so clearly you are running below your guidance. I'm just wondering if you think, you know, you chose not to change any of your guidance, but I was wondering if you see room for provision to come at the lower end or even below your guidance from 19 to 22 billion.

Mr. Calderón: Yes, it is possible that it comes below 19 billion. If we just repeat the third quarter in the fourth quarter, it's going to be lower than 19 billion, and we believe that we can do even better than this. So, at the end of the day, it's possible if not likely, that it is going to be below 19 billion.

The reason we are not changing anything in terms of guidance is, first of all, because it's not meaningful, and second because we don't think that changing guidance, you know, as the year end is so short, it's so close, we don't think that it makes sense.

Mr. Pierre: And what about 2014? Should we expect provisions to be lower than in 2013?

Mr. Calderón: Could you repeat, Mario?

Mr. Pierre: Just your outlook for provision charges next year, 2014.

Mr. Calderón: So we still have our asset quality improving. So, chances are that it comes in a lower level than today. On the other hand, we have acceleration growth. So, looking at the same figure with a slightly potential down is possible. We don't see under the current risk environment on our portfolio, we don't see provisions growing in nominal amounts.

Mr. Pierre: Okay, so my second question then with regards to loan growth as you're saying, you know, it seems like asset quality is completely under control. Also, Alfredo's remarks earlier that we're not seeing banks fighting for market share seems like you have a rational pricing environment. So what is your appetite for taking on more credit risk, especially as you were able to better price the risk? It seems like, you know, the public sector bank is being less present that you could probably see better spreads on your products.

So I was just wondering what kind of loan growth can we see next year given that asset quality is under control and state-owned banks seem to be less aggressive?

Mr. Calderón: So we should be closer to the system growth because the portion that is preventing us of following the market – that is the auto loans – is still to shrink one or two quarters more, and then only restart to grow as from the second half of next year. So, as this is giving to be better than this year, marginally saying, which we should be closer to the market growth next year, what means that it's implied some marginal acceleration, some slight acceleration.

And this acceleration, it's very important to highlight that we are not accelerating because we are changing the risk appetite. We didn't change. We are changing nothing regarding risk appetite because the improvement that we see clearly in our portfolio is not so clear when we look at the market. So, we don't see conditions of being less selective than what we're doing right now.

Mr. Pierre: Okay, thank you very much.

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

Mr. Macedo: Hi, good morning gentlemen. Congratulations on the strong set of result. A couple of questions, somewhat follow-ups to the ones that already been asked. Both had to do with loan mix. So we've seen the loan mix change significantly with payroll loans increasing materially as a part of the overall loan mix and an addition of their less risky loans. When you look at the progression of the 90 day

NPLs this is the lowest ratio since the merger, but also the portfolio you have is completely different than what you had in the merger.

What is your expectation for, how low can this NPL ratio get, given the mix of the portfolio? In other words, if you adjust that NPL ratio to where it was during the merger and you put in the current mix of the portfolio, is it reasonable that we go to 3%? Or is 3% completely out of the question assuming that the underlying economic conditions don't change that materially going into next year? And then I have another question.

Mr. Calderón: Okay Carlos. Well, clearly it's possible that it grows below the current level. How far, it's a very difficult question to answer. You know, vintages are getting every single new vintage, we have better quality in collaterals etc., so it's possible that we delivered 50/60 basis points lower than today. More than this, we should be closer to these moments to reassess the question.

Mr. Macedo: But, I mean, just for instance, in your individual's portfolio in 2010, when you had 5.7% NPL ratio, you probably had something like 40% of that portfolio in auto loans and now you have 40% in payroll loans plus mortgages. Going from 6 to below 5.8 – which is what you had then – is a reasonable expectation? Would you agree with that statement?

Mr. Calderón: Even if we use the equal portfolios in terms of products we have today a better mix of clients, quality of clients, than what we had by that time. So we have today a better level of delinquency than any other moment in our history.

Mr. Macedo: Okay, so you're saying that still part of the reason why the NPLs' haven't come down even further is still cyclical?

Mr. Calderón: Cyclical, but the cyclicality is now on our favor, since we are adding better vintage every new month.

Mr. Macedo: Thank you Calderón. The second question is, the flipside of that is margins and, you know, if it weren't for the additional working days in the quarter, your NII would've been essentially flat sequentially, despite some loan growth. Next quarter we won't have additional working days, I think in fact we go back. So, given what we saw there is the possibility that, unless loan growth is very significant, that NII does remain flat or even comes back because of the changing mix.

How strong is this change in mix and how should we look at it affecting your NII going forward? I mean, it's a continuation of Marcelo's question from before, but is that something that will continue to have this negative impact and will the provision expenses from the lower NPL's be able to offset most of the damage there?

Mr. Calderón: You are right on your analysis, but considering everything we see some room for increasing NII in the fourth quarter and beyond. It's not going to be an exciting growth, but it's going to be a positive evolution.

Mr. Macedo: Okay, thank you Rogério.

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

Mr. Martinez: Hi everybody. I have two questions as well. The first question is a follow-up to a number of questions that deal with your financial margin and provisioning levels.

Turning to the fifth slide, you give your net interest margin evolution over time, both before provisions and after provisions, and what it shows obviously is (as Alfredo highlighted with that) your risk-adjusted NII and NIM have been expanding. It seems like you continue to think that that will continue. Can you give us some more color though and how you see this evolving in the next few quarters? How much more room is there for your credit risk-adjusted net interest margin to expand, let's say, over the next 4 to 6 quarters? Because you're still, you know, relatively far below where you were in 2011, it seems.

Second question is your capital strategy. You know, you seem to have a very comfortable capital position even factoring in Basel III implementation, especially when you consider your ROEs, your current payout ratio and the fact that your growth is coming from products that have very low risk weightings. Can you just comment on how you are looking at capital deployment? Because it seems between dividends, non-organic growth, because it seems like you are generating more capital than you needed to sustain your organic growth.

Mr. Calderón: Regarding the evolution of our spreads or the net interest margin, we are still finishing our business plans for next year and we should be back to you guys. We know that you want to have, anticipate everything that is going to happen next year. But we think that we will be in a better position to talk on this in the next conference call.

But we do believe that there is some room for still increase our net interest margin adjusted by risk. We believe that the compression we see in the net interest margin pre-provision is going to be lower in the coming quarters because of the change in the portfolio mix, to be less impacted than today and then, although the improvement in the loan loss provisions is going to be as well lower than today, this trade-off should be still positive. So this is what I can say qualitatively. Then, maybe, we can go further into details and figures in the next quarters.

Regarding your question, Saul, in relation to our capital deployments, I think it's pretty clear our intention of being back to a normal level of growth. When this restructuring of the auto loan portfolio is finished, probably we will be back to around 15% growth in our credit portfolio. If we consider that the 20% is a sustainable level, by keeping the current dividend payout and growing 15%, we should be more or less with capital stabilization.

In case, however, I know that your question is a little bit different, so, in case we have another picture, so not possible to grow at the same level our credit portfolio and we are still deleting higher ROEs, then eventually we get into a position of excess of capital. At this point in time we should have, you know, one, a couple of different measures to take. One is, of course, increasing dividend payouts. But we also look at strategical opportunities of moving internationally, as you know. At the point that we have this decision to take, then eventually we will be dependent on the circumstance at that specific point in time.

Mr. Martinez: Okay. Do you feel like you have excess capital today?

Mr. Calderón: If you look at the full implementation of BIS, our total capital is 15%, but the core capital, the common equity, Tier 1, would be around 10%. The last figure we calculated precisely indicated 9.7%. So, it's eventually an excess of capital, but not a big one.

Mr. Martinez: Okay, great. Thanks a lot Rogério.

Operator: Our next question comes from Maria Santiago, HSBC.

Ms. Santiago: Hi. All of my questions have been answered. Thank you and congratulations on the strong results.

Mr. Calderón: Thank you Maria.

Operator: Our next question comes from Jorge Quirino, with Morgan Stanley.

Mr. Quirino: Hi everyone. Your asset quality indicators have done very well especially in the consumer segment. Now, the labor market in Brazil has shown some signs of deceleration this year, actually unemployment rate went up 10 bps in September. Have you done any sensitivity about unemployment and your NPL ratio for consumer grounds? Let's say, if unemployment goes by 100 basis points in one year, by how much the consumer NPL ratio should increase? Thank you.

Mr. Calderón: Hi Jorge, Rogério speaking. Yes, we do and we have in our base scenario for next year, actually, unemployment rates to go up from the current level up to 6.4%. So, considering 6.4% the picture in Brazil would still show job creation. Not enough to fully absorb the demographic bonus, but creating jobs. So, if we go beyond 7.5%, around 7.5, then this implies real job reduction and then it could impact differently and strongly in this system as a whole.

When we look at Itaú Unibanco, then it's a different picture because our portfolio is actually much more collateralized now, and this even with a stress negative scenario on unemployment. We don't see any deployments, we don't see any problems beyond 8/9%. Lower than this, we don't see any important impact in our credit portfolio because of the quality, the type of products that we are growing right now.

Mr. Quirino: Okay, thank you very much.

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

Mr. Molina: Good morning. I have a question regarding your investment plan on IT. We noticed how the intangible assets are related to software development and so far acquisition has been accelerating in terms of growth, this obviously has impact on your capital ratio. So, what is your quarterly rate of additions to these intangibles that you expect to see? In the 3Q is around R$ 450 million, pretax. Is this going to go up to 550, 600 on a quarterly basis?

How could we expect this evolution in terms of your quarterly outlays in IT? And what is the amortization calendar for this of intangibles? Because as this intangibles grow they consume capital, but then the amortization hurts reported earnings. So I'd like to get an idea of how this is going to go.

Mr. Calderón: So, we are trying to conclude when and how to address the points. I think we have some comments to make here. The first and most important is the investments we're doing in IT. This amounts to more than 10 billion, 10.4 billion. It's now at full, at fast speed implementation. This is going to impact our capitalization in both 2014 and 15, to increase of course and then depreciation to increase especially as from 2015.

However, we have a very important efficiency to capture out of these investments here. So we don't think that this should imply any further pressure on our profitability. This should be matched.

In terms of capital, the portion on non-tangible, could you develop a little bit more on this? This is the way we should address the point?

Mr. Molina: I was just trying to get an idea if quarterly additions to your software development acquisitions have been intangible, which are right now, they almost doubled in the third quarter, so it's 450. So if this steady state level of investment on a quarterly basis or could you go up to 600?

Mr. Calderón: No, it's actually in a higher-level today than our normal level because part of this package, the full package of 10.4 billion, is related to the software.

Mr. Molina: Okay. So you would expect it to go a little bit higher from current level or this is the level that you think is going to be recurrent?

Mr. Calderón: I should look at the figures in the budget to be more precise on this, but eventually in the short term, but then coming back to a lower level. We are now in, I don't know if we are at the top peak of the disbursement in this project, but we are in a higher level than usual.

Mr. Molina: Sure, sure. Thank you.

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

Mr. Setubal: Thank you all for the participation. We had a very good result. We expect to continue on this trend in the coming quarters. So thank you for your time here with us. I expect to be together again in the fourth quarter conference call. Thank you.

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