g) Risks of insurance and pension plans

Itaú Unibanco Conglomerate has specific committees, which duty is to define the management of funds from Technical Provisions for Insurance and Pension Plan, set out guidelines for managing these funds with the objective of achieving long-term return and to develop evaluation models, risk limits and strategies on allocation of funds to defined financial assets. Such committees are composed not only of executives and those directly responsible for the business management process, but also of an equal number of professionals that head or coordinate the commercial and financial areas.

All risks products are distributed by brokers, in the case of the extended warranty product, it is marketed by the retail company that sells the consumer good; the DPVAT production is from the share that the insurance companies of Itaú Unibanco Conglomerate have in the Leading Insurance Company of the DPVAT Consortia.

There is no product concentration in relation to insurance premium, reducing the risk of product concentration and distribution channels. In the all risks products, the strategy of lower retention is adopted:

Grouping of products	Insurance premium	Retained premium	Retention (%)
Life insurance and accident	1,933	1,914	99.0
All risks	1,192	639	53.6
Credit life	424	423	99.7
Extended warranty	1,158	1,158	100.0
Multiple Risk	238	204	85.9

h) Underwriting risk management structure

- **Centralized control over underwriting risk**

  The risk control of the insurance company is centralized by the Independent Executive Area Responsible for Risk Control, while the management is incumbent upon the Business Units exposed to Underwriting Risk and the Risk Management Area of the Insurance Company.

- **Decentralized management of underwriting risk**

  The underwriting risk management is incumbent upon the Business Area coordinated by the Risk Management Area of the Insurance Company with the participation of the Institutional Actuarial Area and Product Units and Managers. These units, in their daily operations, take risks in view of the profitability of their businesses.

i) Duties and Responsibilities

I- Executive Independent Area responsible for Risk Control

This area shall create conditions to the following:

- Validation and control of underwriting risk models;
- Control and evaluation of changes in the policies of Insurance and Pension Plan;
- Follow up of the performance of the Insurance, Pension Plan and Capitalization portfolios;
- Construction of underwriting risk models;
- Risk assessment of Insurance and Pension Plan products at their creation and on a recurring basis;
- Establishment and publication of the Underwriting Risk Management structure;
- Adoption of compensation policies that do not encourage behaviors incompatible with a risk level considered prudent in the policies and long-term strategies established by the institution.

II- Executive Area Responsible for Operational and Efficiency Risk

- Responsible for devising methods for identifying, assessing, monitoring, controlling and mitigating the Operational Risk;
- Timely report of the main points of operational risks incurrence to the Independent Executive Area responsible for Risk Control;
- Meet the requests from the Central Bank of Brazil, and other Brazilian oversight authorities related to operational risk management, as well as monitor the adherence of Itaú Unibanco units and control areas under the coordination of the Legal Compliance Area to the regulation of the legal oversight authorities.

III- Business Units exposed to Underwriting Risk

- Set out and/or adjust products to the requirements of the Independent Executive Area responsible for Risk Control and the Risk Management Area of the Insurance Company;
- Meet the requests of the Independent Executive Area responsible for Risk Control, preparing or providing database and information for preparation of managerial reports or specific studies, when available.
- Guarantee the quality of the information used in probability of loss models and losses in case of claims;
- Guarantee an adequate level of knowledge about the concepts of involved risks for their identification and rating, ensuring the proper understanding for modeling by the Independent Executive Area responsible for Risk Control and the Risk Management Area of the Insurance Company.

IV- Reinsurance Area

- Set out policies on access to reinsurance markets, regulating the Underwriting operations aligned with the underwriting credit rating by the Independent Executive Area responsible for Risk Control and the Risk Management Area of the Insurance Company.
- Guarantee an adequate level of knowledge about the concepts of involved risks for their identification and rating, ensuring the proper understanding for modeling by the Independent Executive Area responsible for Risk Control and the Risk Management Area of the Insurance Company.
- Send the managerial reports to the Independent Executive Area responsible for Risk Control and the Risk Management Area of the Insurance Company;
- Guarantee the update, reach, scope, accuracy and timeliness of information on reinsurance.

V- Risk Management Area of the Insurance Company

- Formulate policies and underwriting procedures that address the entire underwriting cycle;
- Develop strategic indicators, informing about possible gaps to higher levels;
- Send managerial reports to the Independent Executive Area responsible for Risk Control;
- Guarantee an adequate level of knowledge about the concepts of involved risks for their identification and rating, ensuring the proper understanding and modeling by the Independent Executive Area responsible for Risk Control.
- Monitor the risks incurred by Business Units exposed to Underwriting Risk;
- Report, with quality and speed, the required information under its responsibility to the Brazilian Regulatory Authorities.

VI- Actuarial Area

- Construct and improve models of Provisions and Reserves and submit them duly documented to the Independent Executive Area responsible for Risk Control and Risk Management Area of the Insurance Company.
- Send managerial reports to the Independent Executive Area responsible for Risk Control;
- Guarantee the reach, scope, accuracy and timeliness of information related to the demanded operations which accounting reconciliation was properly carried out.
- Guarantee an adequate level of knowledge about the concepts of involved risks for their identification and rating, ensuring the proper understanding and modeling by the Independent Executive Area responsible for Risk Control.

VII- Internal Controls Area

- Regularly check the adequacy of the internal controls system;
- Conduct periodic reviews of the risk process of Insurance and Pension Plan operations to ensure its completeness, accuracy and reasonableness.

VIII- Internal Audit

Carry out independent and periodic checks as to the effectiveness of the risk control process of Insurance and Pension Plan activity, according to the guidelines of the Audit Committee.

The company's management works together with the investment manager with the objective of ensuring that assets backing long-term products, with guaranteed minimum returns are managed according to the characteristics of its liabilities aiming at its actuarial balance and the long-term solvency.

The company annually carries out a detailed mapping of the liabilities of long-term products that result in payment flows of projected future benefits. This mapping is carried out according to actuarial assumptions.

The investment manager, having this information, uses "Asset Liability Management" models to find the best asset portfolio composition that enables the outweighing of risks entailed in this type of product, considering its long-term economic and financial feasibility. The portfolio of backing assets are periodically balanced in view of the fluctuations in market prices of assets, of the company's liquidity needs, and changes in the liability characteristics.

j) **Market, Credit and Liquidity Risk**

Market risk

- Insurance

  Variation in exchange rates may affect the insurance income in case the assets which indemnification amount is affected by exchange variation. Pursuant to the legislation in force, the Provision for Unearned Premium (which purpose is to guarantee the coverage of future losses) is not affected by exchange variation. An insurance company may carry out the accounting hedge of its operations, by zeroing the long position in foreign currency, but is subject to effective exchange variation of the insured asset. By opting for the economic hedge, the company shall keep a long position in foreign currency, generating volatility in the recognized results.

  Variations in interest rates do not affect the insurance income.

- Pension plan

  In the for FGB products, there was a minimum guaranteed rate by a price index plus interest rate over the contribution period (accumulation of funds) and retirement payment period (decumulation of funds). In case the backing assets have a performance poorer than the minimum guaranteed interest, the insurance company shall complement the accumulated amount.

  In the case of PGBL/VGBL products, there is a minimum guaranteed rate only over the retirement payment period (decumulation of funds).

  The Asset Liability Management is used for meeting the best composition of the asset portfolio that enables the outweighing of risks entailed in this type of product.

Liquidity Risk

In relation to long-term products with minimum guaranteed returns, the subsidiary periodically revaluates its liabilities as payment flows of projected future benefits and maintains the asset manager continually informed about the regular cash needs. In addition, the continuous follow up of its client portfolio enables the subsidiary to anticipate possible unusual movements of migration of reserves, thus enabling it to plan the provision of liquidity necessary for these movements.

Credit Risk

In relation to reinsurance operations, its internal policy provides for avoiding the excess concentration in only one reinsurer. At present the reinsurer with the largest share of our operations is below 29% of total. In addition, we follow the SUSEP provisions about reinsurers that we operate, mainly the item about “solvency rating, issued by a rating agency”, with the following minimum levels:

Rating agency	**Minimum required level**
Standard & Poors	BBB-
Fitch	BBB-
Moody's	Baa3
AM Best	B+

k) Reinsurance

Expenses and revenue reinsurance premiums ceded are recognized in the period when they occur, according to the accrual basis, with no offset of assets and liabilities related to reinsurance except in the event there is contractual provision for the offset of accounts between the parties. Analyses of reinsurance programs are made anticipating the current needs of the company, maintaining the necessary flexibility, in case of changes in management strategy in response to several scenarios to which it may be exposed.

With the approval of the Supplementary Law No. 126 of January 15, 2007, the reinsurance market was opened with the creation of three categories of companies authorized to operate in Brazil: local, admitted and occasional. The transition to the new market was made progressively, maintaining the priority right of local reinsurance companies at 60% of premiums ceded by insurance companies until January 2010; after this period, this percentage may be reduced to 40%. From March 31, 2011, this percentage of 40% shall be obligatory ceded to local reinsurance.

Reinsurance Assets

The amounts appropriated to reinsurance asset are estimated recoverable rights of reinsurers arising from losses incurred. Such assets are evaluated based on risk assignment contracts, and for cases of losses effectively paid, they are revaluated after 365 days as to the possibility of their non-recovery, in case of doubts, such assets are reduced by recognizing an allowance for losses with reinsurance.

Reinsurance ceded

The company cedes in the normal course of its businesses, reinsurance premiums to cover losses on underwriting risks to its insureds and they are in compliance with the operational limits established by the regulating authority. In addition to proportional contracts, non-proportional contracts are also entered into for transferring a portion of the responsibility to the reinsurance company for losses that will be materialized after a certain level of losses in the portfolio. Not proportional reinsurance premiums are appropriated to the prepaid expenses group and realized in the group of other operating expenses according to the effectiveness period of the contract on a daily accrual basis.

a) Receivables from reinsurance operations

	12/31/2010
Unsettled claims	1,048
Claims occurred but not reported	134
Advance of reinsurance premiums	12
Recovery of losses	185
Recovery of selling expenses	27
Other reinsurance receivables	7
Total	**1,413**

b) Prepaid reinsurance premiums

	12/31/2010
Unearned premiums	390
Total	**390**

c) Reinsurance expenses

	12/31/2010
Reinsurance premiums	133
Reinsurance claims	1
Total	**134**

d) Revenue from sales of reinsurance

	12/31/2010
Reinsurance commission	59
Total	**59**

l) Regulatory Authorities

Insurance, Pension and Capitalization operations are regulated by the National Council of Private Insurance and the Superintendency of Private Insurance. These authorities are responsible for regulating the market, and consequently for assisting in the mitigation of risks inherent in the business.

CNSP is the regulatory authority of insurance activities in the country, created by the Decree-Law No. 73, of November 21, 1966. The main attribution of CNSP, at the time of its creation, was to set out the guidelines and rules of the governmental policy on private insurance and capitalization segments, and with the enactment of Law No. 6,435, of July 15, 1977 (revoked by supplementary Law No. 109/01), its attributions included Private Pension Plans of public companies.

SUSEP is the authority responsible for controlling and overseeing the insurance, open private pension, capitalization and reinsurance markets. An agency linked to the Ministry of Finance, it was created by the Decree-Law No. 73, of November 21, 1966, which also created the National System of Private Insurance, of which the National Council of Private Insurance (CNSP), IRB Brasil Resseguros S.A. (IRB Brasil), the companies authorized to have private insurance and capitalization operations and the open private pension companies.

m) Capital for Insurance Activity

SUSEP, following the worldwide trend towards the strengthening of the insurance market, disclosed on December 26, 2006 the CNSP Resolutions Nos. 155 and 158, amended by CNSP Resolutions Nos. 178 of December 28, 2007, and No. 200 of December 16, 2008, and Circular No. 355 of December 14, 2007. The regulations provide for the rules on regulatory capital required for authorization and operation of insurance, private pension and capitalization companies, and rules for the allocation of capital from underwriting risk for several insurance lines.

Noteworthy is the fact that the adjusted stockholders' equity of ITAU UNIBANCO HOLDING companies exclusively engaged in insurance activities is higher than the required regulatory capital.

NOTE 30 – FAIR VALUE OF FINANCIAL INSTRUMENTS

In cases where prices quoted in the market are not available, fair values are based on estimates by using discounted cash flows or other evaluation techniques. These techniques are significantly affected by the adopted assumptions, including the discount rate and estimate of future cash flows. The estimated fair value achieved through these techniques cannot be substantiated by comparison with independent markets and, in many cases, it cannot be realized in the immediate settlement of the instrument.

The following table summarizes the carrying and estimated fair values for financial instruments:

	12/31/2010	
	Carrying value	**Estimated fair value**
Financial assets		
Cash and cash equivalents and Central Bank compulsory deposits	95,948	95,948
Interbank deposits	14,835	14,843
Securities purchase under agreements to resell	88,682	88,682
Financial assets held for trading (*)	115,497	115,497
Financial assets designated at fair value through profit or loss (*)	306	306
Derivatives (*)	7,777	7,777
Available-for-sale financial assets (*)	44,539	44,539
Held-to-maturity financial assets	3,170	3,774
Loan operations	275,493	275,684
Other financial assets	40,733	40,733
Financial liabilities		
Deposits	202,688	202,608
Securities sold under repurchase agreements	199,657	199,657
Financial liabilities held for trading (*)	1,335	1,335
Derivatives (*)	5,671	5,671
Interbank market	62,599	62,542
Institutional market	44,513	44,419
Liabilities for capitalization plans	2,603	2,603
Other financial liabilities	41,012	41,012
Off-balance sheet instruments		
Commitments to extend credit	-	425
Standby letters of credit and pledged guarantees	-	112

(*) These assets and liabilities are recorded in the balance sheet at their Fair Value.

The methods and assumptions adopted to estimate the fair value are defined below:

a) **Cash and Cash Equivalents and Central Bank Compulsory Deposits Securities Purchased Under Agreements to Resell and Other Financial Assets -** The carrying amount presented for these instruments in the consolidated balance sheet is close to their fair value.

b) **Interbank Deposits –** We estimate the fair values of interbank investments by deducting the estimated cash flows and adopting the market interest rates.

c) **Financial Assets Held for Trading, including Derivatives (Assets and Liabilities), Available-for-sale Financial Assets and Held-to-Maturity Financial Assets –** Under usual conditions, the prices quoted in the market are the best indicators of the fair values of financial instruments. However, not all instruments have liquidity or quotations and, in such cases, the adoption of present value estimates and other pricing techniques are required. The fair value of government securities is determined based on the interest rates provided by third parties in the market and they are validated by tracing them to the information supplied by ANDIMA. The fair values of corporate debt securities are computed by adopting criteria similar to those applied to interbank deposits, as described above. The fair values of shares are computed based on their prices quoted in the market. The fair values of derivative financial instruments were determined as follows:

- Swaps: Their cash flows are discounted at present value based on yield curves that reflect the appropriate risk factors. These yield curves may be drawn mainly based on the exchange price of derivatives at BM&F, of Brazilian government securities in the secondary market or derivatives and securities traded abroad. These yield curves may be used to obtain the fair value of currency swaps, interest rates swaps and swaps based on other risk factors (commodities, stock exchange indices, etc.)

- Futures and Forwards: quotations in stock exchanges or criteria identical to those applied to swaps;

- Options: Their fair values are determined based on mathematical models (such as Black & Scholes) that are fed with implicit volatility data, interest rate yield curve and fair value of the underlying asset. Current market prices of options are used to compute the implicit volatilities. All these data are obtained from different sources (usually Bloomberg).

- Loan: Inversely related to the probability of default (allowance for loan losses) in a financial instrument subject to credit risk. The process of adjusting the market price of these spreads is based on the differences between the yield curves with no risk and the yield curves improved by credit.

d) **Loan Operations –** The fair value is estimated based on groups of loans with similar financial and risk characteristics, using valuation models. The fair value of fixed-rate loans was determined by discounting estimated cash flows, applying interest rates close to our current rates for similar loans. For the majority of loans at floating rate, the carrying amount was considered close to their fair value. The fair value of loan and lease operations not overdue was calculated by discounting the expected payments of principal and interest through maturity, at the aforementioned rates. The fair value of overdue loan and lease transactions was based on the discount of estimated cash flows, using a rate proportional to the risk associated to the estimated cash flows, or on the underlying guarantee amount. The assumptions related to cash flows and discount rates are determined with the use of information available in the market and the borrower's specific information.

e) **Interest-bearing and non-interest bearing financial liabilities: Deposits and Securities Sold Under Repurchase Agreements, Financial Liabilities Held for Trading, Funds for Interbank Market, Funds from Institutional Market, Liabilities for capitalization plans and Other financial liabilities**

And for:

- **Non-interest bearing deposits:** The fair value of demand deposits is equal to the amount payable on the reporting date, which is equal to the carrying amount.

- **Interest-bearing deposits – Interest-bearing financial liabilities –** The fair value of time deposits with floating rate was considered close to their carrying amount. The fair value of time deposits at fixed rate was estimated with the use of calculation of discounted cash flow, with the adoption of the interest rate we offer on the respective balance sheet date. The carrying amount of deposits received under securities repurchase agreements, commercial lines and other short-term loan liabilities are close to the fair value of such instruments. The fair value of other long-term liabilities is estimated using cash flows discounted at the interest rates offered in the market for similar instruments. These interest rates are obtained from different sources (usually Bloomberg), from which the risk-free yield curve and the risk-free spread traded for similar instruments are derived.

f) **Financial instruments related to credit –** The fair value of commitments for credit grant was estimated based on the rates currently charged for entering into similar agreements, considering the remaining term of the agreement and the credit quality of the counterparts. The fair value of standby letters of credit, commercial letters and guarantees was based on commissions currently charged in similar agreements or at the cost estimated to settle the agreements, or otherwise the settle the obligations with the counterparties. The fair value of derivatives includes in financial assets/liabilities at fair value through income or in other liabilities, as described in Note 2.4i and presented in Notes 7 and 30. See Note 8 for the notional amount and estimated fair value of our derivative financial instruments.

The entity should rank the fair value measurements using a fair value hierarchy that reflects the significance of inputs adopted in the measurement process.

Level 1: Observable inputs that reflect quoted prices (unadjusted) for identical assets or liabilities in active markets an active market is a market in which transactions for the asset or liability being measured occur often enough and with sufficient volume to provide pricing information on an ongoing basis.

Level 2: Inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly. Level 2 generally includes: (i) quoted prices for similar assets or liabilities in active markets; (ii) quoted prices for identical or similar assets or liabilities in markets that are not active, that is, markets in which there are few transactions for the asset or liability, the prices are not current, or price quotations vary substantially either over time or among market makers, or in which little information is released publicly; (iii) inputs other than quoted prices that are observable for the asset or liability (for example, interest rates and yield curves observable at commonly quoted intervals, volatilities, etc.); (iv) inputs that are mainly derived from or corroborated by observable market data through correlation or by other means.

Level 3: Inputs are unobservable for the asset or liability. Unobservable information shall be used to measure fair value to the extent that observable information is not available, thus allowing for situations in which there is little, if any, market activity for the asset or liability at the measurement date.

Securities: Financial assets held for trading, at fair value through profit and loss and available for sale.

Level 1: Highly-liquid securities with prices quoted in an active market are classified into Level 1 of the fair value hierarchy. This classification level includes most of the Brazilian Government Securities (mainly LTN, LFT, NTN-B, NTN-C and NTN-F), other foreign government securities, shares and debentures traded at stock exchanges and other securities traded in an active market.

Level 2: In the cases in which the pricing information is not available for a specific security, the assessment is usually based on prices quoted in the market for similar instruments, pricing information obtained through pricing services, such as Bloomberg, Reuters and brokers (only when the prices represent actual transactions) or discounted cash flows, which use information from assets actively traded in an active market. These securities are classified into Level 2 of the fair value hierarchy and are composed of certain Brazilian government securities, debentures and some government securities quoted in a less-liquid market in relation to those classified into Level 1, and some share prices in investment funds. Itaú Unibanco Holding does not hold positions in alternative investment funds or private equity funds.

Level 3: In cases in which there is no pricing information in an active market, Itaú Unibanco Holding uses internally developed models, from curves generated according to the proprietary model. The Level 3 classification includes some Brazilian government securities (mainly NTN-I and TDA falling due after 2024, NTN-A1 and CVS), Promissory Notes and securities that are not usually traded in an active market, CRIs.

Derivatives:

Level 1: Derivatives traded in stock exchanges are classified in level 1 of the hierarchy.

Level 2: For derivatives not traded in stock exchanges, Itaú Unibanco Holding estimates the fair value by adopting a number of techniques, such as Black & Scholes, Garman & Kohlhagen, Monte Carlo or even the discounted cash flow models usually adopted in the financial market. Derivatives included in level 2 are credit default swaps, cross currency swaps, interest rates swaps, plain vanilla options, certain forwards and generally all swaps. All models adopted by Itaú Unibanco Holding are widely accepted in the financial services industry and reflect all derivative contractual terms. Considering that many of these models do not comprise a high level of subjectivity, since the methodologies adopted in the models do not require major decisions and information for the model are promptly observed in the actively quoted markets, these products were classified in level 2 of the measurement hierarchy.

Level 3: The derivatives with fair values based on non-observable information in an active market were classified into Level 3 of the fair value hierarchy, and are composed of exotic options, certain swaps indexed to non-observable information, and swaps with other products, such as swap with option and target flow, credit derivatives and futures of certain commodities. These operations have their pricing derived from a range of volatility using the basis of historical volatility.

All aforementioned evaluation methodologies may result in a fair value that may not be an indication of the net realizable value or future fair values. However, Itaú Unibanco Holding believes that all methodologies used are appropriate and consistent with the other market participants. Regardless of this fact, the adoption of other methodologies or different presuppositions to estimate fair value may result in different fair value estimates at the reporting date.

Level distribution

The following table presents the breakdown of Risk Levels at December 31, 2010 for financial assets held for trading, available-for-sale financial assets, Financial assets designated at fair value through profit or loss and Financial liabilities held for trading.

	12/31/2010			
	Level 1	Level 2	Level 3	Total
Financial assets held for trading	**100,445**	**14,893**	**159**	**115,497**
Investment funds	-	1,748	-	1,748
Brazilian government securities	86,422	277	-	86,699
Brazilian external debt bonds	666	-	-	666
Government securities - abroad	**9,036**	**317**	**-**	**9,353**
Argentina	293	-	-	293
United States	8,714	-	-	8,714
Mexico	29	-	-	29
Chile	-	248	-	248
Uruguay	-	24	-	24
Russia	-	45	-	45
Corporate securities	**4,321**	**12,551**	**159**	**17,031**
Shares	3,208	40	-	3,248
Securitized real estate loans	-	439	157	596
Bank Deposit Certificates	-	8,932	-	8,932
Debentures	1,112	1,688	-	2,800
Eurobonds and other	-	1,452	-	1,452
Other	1	-	2	3
Available-for-sale financial assets	**18,898**	**23,994**	**1,647**	**44,539**
Investment funds	-	770	-	770
Brazilian government securities	9,753	6	320	10,079
Brazilian external debt bonds	4,720	-	-	4,720
Government securities - abroad	**679**	**3,880**	**-**	**4,559**
United States	679	-	-	679
Denmark	-	2,016	-	2,016
Spain	-	734	-	734
Korea	-	236	-	236
Chile	-	453	-	453
Paraguay	-	256	-	256
Uruguay	-	185	-	185
Corporate securities	**3,746**	**19,338**	**1,327**	**24,411**
Shares	624	4,500	-	5,124
Securitized real estate loans	-	6,913	62	6,975
Bank Deposit Certificates	-	559	-	559
Debentures	3,122	3,512	-	6,634
Eurobonds and other	-	3,843	-	3,843
Promissory Notes	-	-	1,265	1,265
Other	-	11	-	11
Financial assets designated at fair value through profit or loss	-	**306**	**-**	**306**
Brazilian government securities	-	306	-	306
Financial liabilities held for trading	-	**(1,335)**	**-**	**(1,335)**
Structured notes	-	(1,335)	-	(1,335)

The following table presents the breakdown of Risk Levels at December 31, 2010 for our derivative.

	12/31/2010			
	Level 1	Level 2	Level 3	Total
Derivatives - Assets	**-**	**7,292**	**485**	**7,777**
Options	-	1,696	56	1,752
Forwards	-	2,096	-	2,096
Swap – Differential receivable	-	2,932	5	2,937
Credit derivatives	-	-	261	261
Other derivatives	-	568	163	731
Derivatives - Liabilities	**(46)**	**(5,290)**	**(335)**	**(5,671)**
Options	-	(1,899)	(188)	(2,087)
Forwards	-	(1,191)	-	(1,191)
Swap – Differential payable	-	(2,007)	(6)	(2,013)
Credit derivatives	-	(10)	(119)	(129)
Futures	(46)	-	(9)	(55)
Other derivatives	-	(183)	(13)	(196)

Level 3 Recurring Fair Value Measurements

The tables below include the changes in balance sheet amounts related to the year ended December 31, 2010, for financial instruments ranked by Itaú Unibanco Holding in Level 3 of the assessment hierarchy.

Level Distribution

The table below shows the breakdown of Risk Levels at December 31, 2010 for our held-for-trading and available-for-sale financial assets.

	Fair value in the Opening Balance Sheet	Total gains or losses (realized/ unrealized)	Purchases, issues and settlements	Transfers in and/or out of Level 3	Fair value at 12/31/2010	Total gains (losses) related to assets and liabilities still held at the report date
Held-for-trading financial assets	**561**	**1**	**(403)**	**-**	**159**	**2**
Government securities - other countries	**-**	**-**	**-**	**-**	**-**	**-**
Corporate securities	**561**	**1**	**(403)**	**-**	**159**	**2**
Securitized real estate loans	-	1	156	-	157	2
Promissory Notes	561	-	(561)	-	-	-
Other	-	-	2	-	2	-
Available-for-sale financial assets	**2,086**	**2**	**(441)**	**-**	**1,647**	**(1)**
Brazilian government securities	334	-	(14)	-	320	(1)
Corporate securities	**1,752**	**2**	**(427)**	**-**	**1,327**	**-**
Securitized real estate loans	126	-	(64)	-	62	-
Promissory Notes	1,626	2	(363)	-	1,265	-
Derivatives - Assets	**504**	**56**	**(75)**	**-**	**485**	**(55)**
Options	177	30	(151)	-	56	-
Swap – Differential receivable	-	-	5	-	5	-
Target flow of swap	186	-	(186)	-	-	-
Swaps with target flow	49	-	(49)	-	-	-
Credit derivatives	15	87	159	-	261	3
Other derivatives	77	(61)	147	-	163	(58)
Derivatives - Liabilities	**(629)**	**373**	**(79)**	**-**	**(335)**	**10**
Options	(249)	83	(22)	-	(188)	45
Swap – Differential payable	(6)	-	-	-	(6)	(5)
Target flow of swap	(140)	-	140	-	-	-
Swaps with target flow	(90)	-	90	-	-	-
Credit derivatives	(106)	80	(93)	-	(119)	(6)
Futures	(9)	227	(227)	-	(9)	(11)
Other derivatives	(29)	(17)	33	-	(13)	(13)

Derivative financial instruments classified in Level 3 at January 1, 2010 correspond to a small volume of exotic options and illiquid plain-vanilla swaps. In 2007, we started trading foreign currency swaps with additional characteristics, such as leverage, thresholds and others. From the end of the third quarter on 2008, as a consequence of the significant devaluation of the Real against the main foreign currencies, the market became quite illiquid for these swaps, and, accordingly, these instruments were classified in Level 3.

There were no significant transfers between Level 1 and Level 2 in 2010.

There were no transfers to and from Level 3 in relation to the other levels in 2010.

NOTE 31 – CONTINGENCIES AND OTHER COMMITMENTS

In the ordinary course of its businesses, ITAÚ UNIBANCO HOLDING is involved in contingencies that may be classified as follows.

a) Contingent Assets: there are no contingent assets recorded.

b) Contingent Liabilities: The criteria to quantify contingencies are adequate in relation to the specific characteristics of civil, labor and tax lawsuits portfolios, as well as other risks.

- **Civil lawsuits**

  Collective lawsuits (related to claims considered similar and which each individual amount is not considered significant): contingencies are determined on a monthly basis and the expected amount of losses is accrued according to statistical references that take into account the type of lawsuit and the characteristics of the legal body (Small Claims Court or Regular Court).

  Individual lawsuits (related to claims with unusual characteristics or involving significant amounts): determined from time to time, based on the amount claimed and the likelihood of loss, which, in turn, is estimated according to the “de facto” and “de jure” characteristics related to such lawsuit. The amounts considered probable losses are accrued.

  Contingencies usually arise from revision of contracts and compensation for property damage and pain and suffering; most of these lawsuits are filed in the Small Claims Court and therefore limited to 40 minimum monthly wages. The bank is also party to specific lawsuits over alleged understated inflation adjustments to savings accounts in connection with economic plans.

  The case law at the Federal Supreme Court is favorable to banks in relation to an economic phenomenon similar to savings, as in the case of adjustment to time deposits and contracts in general. Additionally, the Superior Court of Justice has recently decided that the term for filing public civil actions over understated inflation is five years. In view of such decision, some of the lawsuits may be dismissed because they were filed after the five-year period.

  In the accounting books no amount is recognized in relation to Civil Lawsuits which represent possible losses, which have a total estimated risk of R$ 764, these refer to claims for compensation or collection, the individual amounts of which are not significant, and this total does not there are values resulting from participation in Joint Ventures.

- **Labor claims**

  Collective lawsuits (related to claims considered similar and with individual amounts not considered significant): the expected amount of loss is determined and accrued monthly by the moving average of payments in relation to lawsuits settled in the last 12 months, plus the average cost of fees. These are adjusted to the amounts deposited as guarantee for their execution when realized.

  Individual lawsuits (related to claims with unusual characteristics or involving significant amounts): determined from time to time, based on the amount claimed and the likelihood of loss, which, in turn, is estimated according to the “de facto” and “de jure” characteristics related to such lawsuit. The amounts considered probable losses are accrued.

  Contingencies are related to lawsuits in which alleged labor rights based on labor legislation specific to the related profession, such as overtime, salary equalization, reinstatement, transfer allowance, pension plan supplement and other, are discussed.

- **Other Risks**

  These are quantified and accrued mainly based on the evaluation of rural credit transactions with joint liability and FCVS (salary variations compensation fund) credits assigned to Banco Nacional.

The table below shows the changes in the respective provisions for contingent liabilities and the respective escrow deposits balances:

	01/01 to 12/31/2010			
	Civil	Labor	Other	Total
Opening balance	**2,394**	**3,156**	**184**	**5,734**
(-) Contingencies guaranteed by indemnity clauses (Note 2.4)	(99)	(573)	-	(672)
Subtotal	**2,295**	**2,583**	**184**	**5,062**
Financial/Charges	141	77	-	218
Changes in the period reflected in results	1,184	804	(11)	1,977
Increase (1)	1,801	905	-	2,706
Reversal	(617)	(101)	(11)	(729)
Payment	(955)	(591)	-	(1,546)
Subtotal	**2,665**	**2,873**	**173**	**5,711**
(+) Contingencies guaranteed by indemnity clauses (Note 2.4)	309	1,113	-	1,422
Closing balance (2)	**2,974**	**3,986**	**173**	**7,133**
Escrow deposits at 12/31/2010	**1,543**	**1,513**	**-**	**3,056**

(1) Civil provisions include the provision for economic plans amounting to R$ 708.
(2) Includes amounts arising from interests in joint ventures represented by civil and labor lawsuits, which amounted to R$ 4 and R$ 16.

- **Tax and social security lawsuits**

Contingencies are equivalent to the principal amount of taxes involved in administrative or judicial disputes, subject to tax assessment notices, plus interest and, when applicable, fines and charges. The amount is accrued when it involves a legal liability, regardless of the likelihood of loss, that is, a favorable outcome to the institution is dependent upon the recognition of the unconstitutionality of the applicable law in force. In other cases, a provision is set up whenever the loss is considered probable.

The table below shows the changes in the provisions and respective escrow deposits for Tax and Social Security lawsuits balances:

Provision	01/01 to 12/31/2010		
	Legal liability	Contingencies	Total
Opening balance	**6,280**	**1,510**	**7,790**
(-) Contingencies guaranteed by indemnity clauses	-	(35)	(35)
Subtotal	**6,280**	**1,475**	**7,755**
Financial Charges	345	92	437
Changes in the period reflected in results	**402**	**664**	**1,066**
Increase	786	934	1,720
Reversal	(384)	(270)	(654)
Payment	(1,935)	(110)	(2,045)
Subtotal	**5,092**	**2,121**	**7,213**
(+) Contingencies guaranteed by indemnity clauses	-	44	44
Closing balance (*)	**5,092**	**2,165**	**7,257**

(*) Includes amounts arising from interests in joint ventures represented by Legal liability and Contingencies , which amounted to R$ 2 and R$ 14.

Escrow Deposits	01/01 to 12/31/2010		
	Legal liability	Contingencies	Total
Opening balance	**3,439**	**1,638**	**5,077**
Appropriation of income	208	87	295
Changes in the period	18	(713)	(695)
Deposited	111	385	496
Withdrawals	(71)	(1,075)	(1,146)
Conversion into income (*)	(22)	(23)	(45)
Closing balance	**3,665**	**1,012**	**4,677**

(*) ITAÚ UNIBANCO HOLDING and its subsidiaries adhered to the Program for Cash or Installment Payment of Federal Taxes, established by Law No. 11,941, of May 27, 2009. The program included the debits administered by the Federal Reserve Service of Brazil and the General Attorney's Office of the National Treasury past due before November 30, 2008. In the period, the proposition included in this program was the increase in the PIS and COFINS calculation basis, as set forth by paragraph 1 of article 3 of Law No. 9,718 of November 27, 1998, classified as legal liabilities. The net effect in results was R$ 144 recorded in Other Revenue.

The main discussions related to Legal Obligations are described as follows:

- PIS and COFINS – Calculation basis – R$ 2,355: we defend the levy of contributions only on revenue, understood as the revenue from sales of assets and services. The escrow deposit balance totals R$ 962.

- CSLL – Isonomy – R$ 810, the law increased the CSLL rate for financial and insurance companies to 15%, keeping the 9% tax rate for the other companies. We discuss the lack of constitutional support for this measure and, due to the principle of isonomy, we defend the levy at the regular rate of 9%. The escrow deposit balance totals R$ 179.

- IRPJ and CSLL – Taxation of profits earned abroad – R$ 459: we discuss the calculation basis for levy of these taxes on profits earned abroad and the non-applicability of Regulatory Instruction SRF No. 213-02 in which it exceeds the suitability of the legal text. The escrow deposit balance totals R$ 457.

- PIS – R$ 368 - Principles of anteriority, anteriority over 90 days and non-retroactivity: we request the rejection of Constitutional Amendments No. 10/96 and 17/97 in view of the principle of anteriority and non-retroactivity, aiming at the payment base on Supplementary Law No. 07/70. The corresponding escrow deposit totals R$ 61.

In the accounting books no amount is recognized in relation to Tax and Social Security Lawsuits with likelihood of loss possible, which total an estimated risk of R$ 4,657. The main discussions are as follows:

- IRPJ, CSLL, PIS and COFINS – request for offset dismissed - R$ 860: cases in which the liquidity and the offset credit certainty are discussed.

- IRPJ/CSLL - Losses and discounts on receipt of credits – R$ 582: we defend that these are necessary operating expenses and deductible for the losses in loan operations and discounts upon their renegotiation and recovery, as provided for the Law.

- ISS – Banking Institutions – R$ 425: these are banking operations, which revenue may not be interpreted as price per service rendered, and/or arise from activities not listed under a Supplementary Law.

- INSS – Non-compensatory amounts – R$ 378: we defend the non-taxation of these amounts, mainly profit sharing, transportation vouchers and sole bonus.

- IRPJ, CSLL, PIS and COFINS – Usufruct of quotas and shares - R$ 332: we discuss the adequate accounting and tax treatment for the amount received due to the onerous recognition of usufruct.

The amounts arising from interests in joint ventures represented to R$ 22.

c) **Receivables - Reimbursement of contingencies**

The Receivables balance arising from reimbursements of contingencies totals R$ 1,784 (Note 19a), basically represented by the guarantee in the Banco Banerj S.A. privatization process occurred in 1997, in which the State of Rio de Janeiro created a fund to guarantee the equity recomposition in Civil, Labor and Tax Contingencies.

d) **Guarantee of voluntary resources**

These are pledged in guarantee of voluntary resources related to contingent liability and are restricted, deposited or recorded in the amounts below:

	12/31/2010
Securities (basically Financial Treasury Bills)	1,516
Deposits in guarantee	3,292

According to the opinion of the legal advisors, ITAÚ UNIBANCO HOLDING and its subsidiary companies are not involved in any other administrative proceedings or legal lawsuits that may significantly impact the results of its operations. The combined evaluation of all existing provisions for all contingent liabilities and legal liabilities, which are recognized through the adoption of statistical models for claims involving small amounts, and individual evaluation by internal and external legal advisors of other cases, showed that the accrued amounts are sufficient, as provided for CMN Resolution No. 3,823, of December 16, 2009, and BACEN Circular Letter No. 3,429, of February 11, 2010.

NOTE 32 – REGULATORY CAPITAL

Itaú Unibanco Holding is subject to regulation by the Central Bank of Brazil which issues directions and instructions regarding currency and credit policies for financial institutions operating in Brazil. The Central Bank also determines minimum capital requirements, fixed assets limits, lending limits, accounting practices and compulsory deposit requirements, and requires banks to comply with regulation based on the Basel Accord as regards to capital adequacy. Furthermore, the National Council of Private Insurance and SUSEP issues regulations on capital requirement which affect our insurance, pension plan and capitalization operations.

The Basel Accord requires banks to have a ratio of regulatory capital to risk exposure assets of a minimum of 8%. The regulatory capital is basically composed of two tiers:

- Tier I: in general, certain capital, reserves and retained earnings, less certain intangibles.

- Tier II: includes, among other items and subject to certain limitations, asset revaluation reserves, general allowance for losses and subordinated debt, and is limited to the amount of Tier I Capital.

However, the Basel Accord allows the regulatory authorities of each country to establish their own parameters for regulatory capital composition and to determine the portions exposed to risk. Among the main differences arising from the adoption of own parameter pursuant to the Brazilian legislation are the following: (i) the requirement of a ratio of regulatory capital to risk-weighted assets of at a minimum of 11%; (ii) certain risk-weighted factors attributed to certain assets and other exposures; (iii) the requirement that banks allocate a portion of their equity to cover operational risks, ranging from 12% to 18% of the average gross income from financial operations. In addition, accordance with Central Bank rules, banks shall calculate compliance with the minimum requirement:

- Based on the consolidation of all financial subsidiaries regulated by the Central Bank, including branches and investments abroad, and

- Based on full consolidation, considering all companies which are statutorily or operationally controlled by Itaú Unibanco Holding, regardless of whether they are regulated or not by the Central Bank or not.

Managements manages capital with the intention to meet the minimal capital requirements required by Brazil Central Bank. During the period we complied with all externally imposed capital requirements to which we are subject.

The following table summarizes the composition of regulatory capital, the minimum capital required and the Basel ratio computed in accordance with the Central Bank of Brazil, both on a financial institution consolidation basis and on a full consolidation basis.

	12/31/2010	
	Financial institutions (partial consolidation)	**Full consolidation**
Regulatory capital		
Tier I	60,192	62,240
Tier II	18,652	18,652
Other deductions required by Central Bank of Brazil	(173)	(173)
Total	**78,671**	**80,719**
Requirement for Coverage of Risk Exposures:		
Credit	50,979	53,442
Market	997	954
Operational	2,746	3,129
Minimum Regulatory Capital Required	**54,722**	**57,525**
Excess of Regulatory Capital over Minimum Regulatory Capital Required	**23,949**	**23,194**
Exposure Weighted by Risk	497,468	522,952
Capital to risk-weighted assets ratio - %	**15.8**	**15.4**

The funds obtained through the issue of subordinated debt securities are considered capital Tier II for purposes of Capital to risk-weighted assets ratio, as follows:

Name of security	Issue	Maturity	Return p.a.	Principal
Subordinated euronotes	2nd half of 2001	August 2011	10.00%	457
Subordinated euronotes	August 2001	August 2011	4.25%	625
Subordinated CDB	March 2007	April 2012	103.5% of CDI	5,000
Subordinated CDB	May 2007	May 2012	104% of CDI	1,406
Subordinated CDB	July 2007	July 2012	CDI + 0.38%	422
Subordinated CDB	August 2007	August 2012	CDI + 0,38%	200
Subordinated CDB	October 2007	October 2012	IGPM + 7.31%	161
Subordinated CDB	October 2007	October 2012	IGPM + 7.35%	130
Subordinated CDB	October 2007	October 2012	103.8% of CDI	93
Subordinated CDB	October 2007	October 2012	CDI + 0.45%	450
Subordinated CDB	November 2007	November 2012	CDI + 0.35%	300
Subordinated CDB	December 2002	December 2012	102.5% of CDI	200
Subordinated CDB	December 2002	December 2012	102% of CDI	20
Subordinated CDB	January 2008	February 2013	CDI + 0.50%	880
Subordinated CDB	February 2008	February 2013	CDI + 0.50%	1,256
Subordinated CDB	1st quarter of 2008	1st quarter of 2013	CDI + 0.60%	817
Subordinated CDB	2nd quarter of 2008	2nd quarter of 2013	106% of CDI	29
Subordinated CDB	2nd quarter of 2008	2nd quarter of 2013	107% of CDI	19
Subordinated CDB	November 2003	November 2013	102% of CDI	40
Subordinated CDB	May 2007	May 2014	CDI + 0.35%	1,804
Subordinated CDB	August 2007	August 2014	CDI + 0.46%	50
Subordinated CDB	October 2007	October 2014	IGPM + 7.35%	33
Subordinated CDB	November 2008	October 2014	112% of CDI	1,000
Subordinated CDB	December 2007	December 2014	CDI + 0.60%	10
Preferred shares	December 2002	March 2015	3.04%	1,389
Subordinated CDB	January 2010	November 2015	113% of CDI	50
Subordinated CDB	3rd quarter of 2008	3rd quarter of 2015	119.8% of CDI	400
Subordinated CDB	January 2010	January 2016	114% of CDI	500
Subordinated CDB	1st quarter of 2010	1st quarter of 2016	110% of CDI	33
Subordinated CDB	1st quarter of 2010	1st quarter of 2016	111% of CDI	33
Subordinated CDB	1st quarter of 2010	1st quarter of 2016	113% of CDI	2,098
Subordinated CDB	March 2010	March 2016	IPCA + 7.33%	122
Subordinated financial bills	August 2010	August 2016	100% of CDI + 1.36%	365
Subordinated financial bills	September 2010	September 2016	112.5% of CDI	16
Subordinated CDB (1)	December 2006	December 2016	CDI + 0.47%	500
Subordinated financial bills	3rd quarter 2010	3rd quarter 2016	112% of CDI	1,804
Subordinated financial bills	October 2010	October 2016	112% of CDI	50
Subordinated CDB	March 2010	March 2017	IPCA + 7.45%	367
Subordinated financial bills	September 2010	September 2017	100% of IPCA + 7.2%	160
Subordinated financial bills	September 2010	September 2017	100% of IPCA + 7.0%	20
Subordinated financial bills	October 2010	October 2017	100% of IPCA + 6.95%	20
Subordinated financial bills	October 2010	October 2017	100% of IPCA + 6.97%	6
Subordinated euronotes	April 2010	April 2020	6.20%	1,730
Subordinated euronotes	September 2010	January 2021	5.75%	1,694
Eurobonds -Perpetual Non-cumulative Junior Subordinated Securities (2)	July 2005	Not determined	8.70%	1,195

(1) Subordinated CDBs may be redeemed from November 2011;

(2) The debt may be fully redeemed only at the option of the issuer from July 29, 2010 or at each subsequent payment.

NOTE 33 – BUSINESS SEGMENT INFORMATION

Our four operational and reporting segments are: Commercial Bank, Itaú BBA, Consumer Credit, and Corporation and Treasury.

We are a banking institution that offers its clients a wide range of financial products and services. Our current business segments are described below:

- **Itaú Unibanco – Commercial Bank**

  Our Commercial Bank segment provides a broad range of banking services to a diversified client base of individuals and companies, among which are the following: retail clients (individuals and very small companies), high net worth clients, private banking clients, and small and middle-sized companies.

  The products and services provided by the Commercial Bank include insurance, private pension and capitalization plans, credit cards, asset management and loans, among others. The segment provides solutions specifically developed to meet the demand of clients, devising marketing strategies appropriate to each of the different profiles and using the most convenient distribution channels. Accordingly, we are constantly seeking to increase the number of products used by clients, diversifying our sources of income. The segment is an important source of funding to our operations and provides significant interest income and banking services.

- **Itaú Unibanco - Itaú BBA**

  Our segment responsible for banking operations of large companies and investment banking services is named Itaú BBA. Itaú BBA offers a wide range of products and services to the biggest economic groups of Brazil. The management model of Itaú BBA is focused on the development of close relationships with its clients, gaining a deep knowledge of their needs and providing customized solutions. The investment banking activities comprise the provision of funds to the corporate segment that are raised through fixed and variable income instruments. In addition, it performs activities of mergers and acquisitions.

- **Itaú Unibanco – Consumer Credit**

  The Consumer Credit segment is responsible for the development of our strategy of increasing the range of financial products and services beyond the universe of clients who are account holders. Thus the consumer credit segment comprises vehicle financing services provided by units other than the branch network, credit cards to clients who are not account holders, and credit to the low income population. The business of the vehicle financing operation comprises: new vehicles, used vehicles, heavy vehicles and motorcycles. The integration of the operations of Itaú and Unibanco showed a strong complementarity of businesses, a competitive advantage that we are increasing by intensifying the combined operations, exchanging expertise between teams and seeking a higher operational efficiency. The credit approval process of vehicle operations is based on scoring models that provides prompt approval of credit proposals from our clients, using the Internet to process these proposals with security and efficiency.

- **Itaú Unibanco – Corporation and Treasury**

  Our Corporation and Treasury segment basically shows the interest income associated with our capital surplus, subordinated debt surplus and the net balance of tax credits and debits, as well as the net interest income from the trading of financial assets through proprietary positions (desks), management of currency gaps, interest rates gaps and other risk factors, arbitrage opportunities in the foreign and domestic markets, and mark to market of financial assets. In this column, we also show the effect of nonrecurring items that are not considered in the managerial statement of income of the other respective segments.

Basis of presentation of business segment information

Business segment information is prepared based on the reports used by top management to assess the segments' performance and to make decisions regarding the allocation of funds for investment and other purposes.

The top management of Itaú Unibanco Holding uses a variety of information for such purposes including financial and non-financial information that are measured on different basis including information prepared based on accounting practices adopted in Brazil on adjusted basis.

The segment information has been prepared following accounting practices adopted in Brazil modified for the adjustments described below. Financial segment information differs from accounting practices adopted in Brazil because: (i) it includes recognition of the impact related to allocated capital using a proprietary model; (ii) it presents net interest income using managerial criteria. The main impacts are:

Allocated Capital to each segment

Book value of stockholders' equity and subordinated debt were replaced by funding at estimated market price, and interest income and expense were allocated to different segments, based on Tier I Capital, following a proprietary model, with the excess of capital and subordinated debt being allocated to the Corporation and Treasury segment. The tax effects of payments of interest on capital by each segment have been reverted and reallocated to the segments in amounts proportional to the amount of the Tier I capital. Equity in earnings (losses) of unconsolidated companies which are not related to each segment and noncontrolling interest were allocated to the Corporation and Treasury segment.

Net Interest Income

We adopt a strategy to manage the foreign exchange risk from subsidiaries outside Brazil in order to economically hedge against impacts on our results arising from variation in exchange rates. In order to achieve this objective, we use derivative instruments to hedge against such foreign currency risk. We do not apply hedge accounting to account for those derivatives and we record them at fair value with gains and losses in income.

Our hedging strategy considers all related tax effects, either (i) the non-taxation when the Real appreciates or non-deductibility when the Real devaluates of the exchange variation on the investments abroad, and (ii) the taxation and deductibility of the gains and losses on derivative financial instruments. When the parity of the Real against foreign currencies is considerable, there is a significant impact on several financial statements items.

As result of the above, we adopt a managerial statement of income that we also used in the presentation of segment information. The managerial statement of income is prepared by making reclassifications to the financial statements according to the accounting practices adopted in Brazil. We reclassify in the managerial statements of income the tax effects of the hedge of these investments abroad, which are presented in tax expenses (PIS and COFINS) and Income Tax and Social Contribution.

Additionally, the financial margin has, for each operation, allocation of its opportunity cos.

In the Adjustments and Reclassifications column, we present the effects of differences between the accounting principles followed for the presentation of segment information, which are based on accounting practices adopted in Brazil adjusted as described above, and the policies used in the preparation of these consolidated financial statements according to IFRS.

Accumulated 2010	COMMERCIAL BANK	ITAÚ BBA	CONSUMER CREDIT	CORPORATION + TREASURY	TOTAL	ADJUSTMENTS	IFRS CONSOLIDATED
Banking Product	**41,126**	**6,400**	**15,727**	**6,463**	**69,663**	**(84)**	**69,579**
Net interest (1)	27,064	4,601	9,405	3,611	44,662	1,341	46,003
Banking service fees	9,220	1,932	5,953	381	17,462	(358)	17,104
Income from insurance, pension plans and on capitalization	4,366	-	284	2,327	6,977	(2,194)	4,783
Other revenues	476	(133)	85	144	562	1,127	1,689
Losses on loans and claims	**(9,540)**	**186**	**(3,913)**	**(1,268)**	**(14,535)**	**1,574**	**(12,961)**
Expenses for allowance for loan losses	(10,804)	(182)	(4,932)	(18)	(15,936)	388	(15,548)
Recovery of loss previously written-off	2,889	368	1,019	-	4,276	(81)	4,195
Expenses for claims	(1,625)	-	-	(1,250)	(2,875)	1,267	(1,608)
Operating margin	**31,586**	**6,586**	**11,814**	**5,195**	**55,128**	**1,490**	**56,618**
Other operating income (expenses)	**(22,779)**	**(2,721)**	**(8,169)**	**(2,307)**	**(35,969)**	**(2,620)**	**(38,589)**
Non-interest expenses (2)	(20,678)	(2,378)	(7,154)	(2,182)	(32,386)	(2,321)	(34,707)
Tax expenses for ISS, PIS and COFINS and Other	(2,139)	(388)	(1,014)	(345)	(3,886)	(278)	(4,164)
Equity in earnings of affiliates	19	(6)	-	210	224	58	282
Other results	19	51	(1)	10	79	(79)	-
Net income before income tax and social contribution	**8,807**	**3,865**	**3,645**	**2,888**	**19,159**	**(1,130)**	**18,029**
Income tax and social contribution	(2,526)	(1,023)	(1,075)	(588)	(5,212)	(324)	(5,536)
Minority interest in subsidiaries	-	-	-	(970)	(924)	139	(785)
NET INCOME	**6,281**	**2,842**	**2,570**	**1,330**	**13,023**	**(1,315)**	**11,708**

(1) Includes interest and similar income and expenses R$ 41,079, dividend income R$ 223, net, gain (loss) from financial assets R$ 2,878 and liabilities and results from foreign exchange operations and exchange variation of transactions abroad R$ 1.823.

(2) Refers to general and administrative expenses including expenses depreciation R$ 1,166 and amortization R$ 1,023.

Total Assets (1)	**531,903**	**209,988**	**93,829**	**69,719**	**755,112**	**(27,631)**	**727,481**
Total Liabilities	**511,153**	**197,266**	**85,624**	**46,787**	**690,503**	**(30,964)**	**659,539**
(1) Includes::							
Fixed, net	3,752	232	842	199	5,025	(223)	4,802
Intangible, net	2,648	10	603	23	3,285	(41)	3,244
Total Assets - 01/01/2010 (2)	**424,079**	**153,086**	**74,538**	**56,121**	**608,273**	**(29,669)**	**578,604**
Total Liabilities - 01/01/2010	**410,845**	**140,577**	**67,410**	**34,768**	**554,049**	**(34,525)**	**519,524**
(2) Includes:							
Fixed, net	3,174	542	457	187	4,360	(182)	4,178
Intangible, net	3,661	1	71	15	3,748	(25)	3,723

The consolidated figures do not represent the sum of all parts because there are intercompany transactions that were eliminated only in the consolidated statements. Segments are assessed by top management, net of income and expenses between related parties.

The Management analyses the financial margin on net basis.

Information on Income by geographical area at December 31, 2010 is as follows:

	Brazil	Foreign	Total
Income from financial operations (*)	79,249	3,594	82,843
Non-current assets	7,456	590	8,046

(*) Includes interest and similar income, dividend income, net gains (loss) from financial assets and liabilities, results from foreign exchange operations and exchange variation of transactions abroad.

NOTE 34 – RELATED PARTIES

a) Transactions between related parties are carried out at amounts, terms and average rates in accordance with normal market practices during the period, as well as under reciprocal conditions.

Transactions between companies included in consolidation (Note 2.4a) were eliminated from the consolidated financial statements and take into consideration the lack of risk.

The unconsolidated related parties are the following:

- ITAÚSA, the parent company joint control of ITAÚ UNIBANCO HOLDING, its controlling companies and nonfinancial subsidiaries, especially: Itautec S.A., Duratex S.A., Elekeiroz S.A. and Itaúsa Empreendimentos S.A.;

- Fundação Itaubanco, FUNBEP – Fundo de Pensão Multipatrocinado, Caixa de Previdência dos Funcionários do BEG (PREBEG), Fundação Bemgeprev, Itaubank Sociedade de Previdência Privada, UBB – Prev Previdência Complementar, and Fundação Banorte Manuel Baptista da Silva de Seguridade Social, closed-end private pension entities, that administer supplementary retirement plans sponsored by ITAÚ UNIBANCO HOLDING and/or its subsidiaries; and

- Fundação Itaú Social, Instituto Itaú Cultural, Instituto Unibanco, Instituto Assistencial Pedro Di Perna, Instituto Unibanco de Cinema, and Associação Clube "A", entities sponsored by ITAÚ UNIBANCO and subsidiaries to act in their respective areas of interest;

- Jointly controlled entities Banco Investcred Unibanco S.A., Financeira Itaú CBD S.A. Crédito, Financiamento e Investimento, FAI Financeira Americanas Itaú S.A. Crédito, Financiamento e Investimento, FIC Promotora de Vendas Ltda. and Ponto Frio Leasing S.A. – Arrendamento Mercantil; and

- The investee Porto Seguro S.A.

The transactions with these related parties are basically characterized by:

	ITAÚ UNIBANCO HOLDING CONSOLIDATED	
	ASSETS (LIABILITIES)	REVENUE (EXPENSES)
	12/31/2010	01/01 to 12/31/2010
Interbank deposits	**756**	**53**
Financeira Itaú CBD S.A. Crédito, Financiamento e Investimento	427	35
Porto Seguro S.A.	33	-
Banco Investcred Unibanco S.A.	9	-
Ponto Frio Leasing S.A. Arrendamento Mercantil	5	-
FAI Financeira Americanas Itaú S.A. Crédito, Financiamento e Investimento	282	18
Deposits	**(93)**	**(16)**
Duratex S.A.	(46)	-
Elekeiroz S.A.	(31)	-
Itautec S.A.	(8)	-
Porto Seguro S.A.	(2)	(16)
Ponto Frio Leasing S.A. Arrendamento Mercantil	(5)	-
Other	(1)	-
Repurchase agreements	**(94)**	**(6)**
Itaúsa Empreendimentos S.A.	(52)	-
Duratex S.A.	(8)	(2)
Elekeiroz S.A.	-	(2)
Itautec S.A.	(18)	-
Financeira Itaú CBD S.A. Crédito, Financiamento e Investimento	-	(1)
FIC Promotora de Vendas Ltda.	(6)	-
Banco Investcred Unibanco S.A.	(9)	(1)
Other	(1)	-
Amounts receivable from (payable to) related companies	**(108)**	**(77)**
Itaúsa Investimentos S.A.	-	(63)
Financeira Itaú CBD S.A. Crédito, Financiamento e Investimento	-	(13)
FAI Financeira Americanas Itaú S.A. Crédito, Financiamento e Investimento	-	(1)
Fundação BEMGEPREV	(13)	-
UBB Prev Previdência Complementar	(17)	-
Fundação Banorte Manuel Baptista da Silva de Seguridade Social	(79)	-
Other	1	-
Service revenue (expenses)	**-**	**107**
Porto Seguro S.A.	-	61
Financeira Itaú CBD S.A. Crédito, Financiamento e Investimento	-	2
FAI Financeira Americanas Itaú S.A. Crédito, Financiamento e Investimento	-	20
Fundação Itaubanco	-	10
FUNBEP - Fundo de Pensão Multipatrocinado	-	3
UBB Prev Previdência Complementar	-	3
Other	-	8
Rent expenses	**-**	**(29)**
Itaúsa Investimentos S.A.	-	(1)
Fundação Itaubanco	-	(15)
FUNBEP - Fundo de Pensão Multipatrocinado	-	(8)
Paraná Companhia de Seguros	-	(4)
Other	-	(1)
Donation expenses	**-**	**(44)**
Instituto Itaú Cultural	-	(44)
Data processing expenses	**-**	**(296)**
Itautec S.A.	-	(296)

In addition to the aforementioned operations, ITAÚ UNIBANCO HOLDING and non-consolidated related parties, as an integral part of the Agreement for Apportionment of Common Costs of the Itaú Unibanco group, recorded in Other Administrative Expenses, the amount of R$ 17 in view of the use of the common structure.

b) Compensation of the Management Key Personnel

Compensation for the period to key management members of Itaú Unibanco Holding consisted of:

	12/31/2010
Compensation	**294**
Board of directors	3
Management members	291
Profit sharing	**261**
Board of directors	2
Management members	259
Contributions to pension plans	**8**
Board of directors	1
Management members	7
Stock option plan – Management members	**128**
Stock option plan - Employees	**6**
Total	**697**

Pursuant to the effective rules, financial institutions cannot grant loans or advances to the following:

a) any individuals or companies that control the Institution or any entity under common control with the institution, or any executive officer, director, member of the fiscal council, or the immediate family members of these individuals;
b) any entity controlled by the institution; or
c) any entity in which the financial institution directly or indirectly holds more than 10% of the capital stock.

Therefore, no loan or advance is granted to any subsidiary, executive officer, director or family members.

Itaú Unibanco Holding has made donations regularly to Fundação Itaú Social, a charitable foundation whose objectives are: to create the “Programa Itaú Social” (Itaú Social Program), aimed at coordinating activities of interest to the community, supporting and developing social, scientific and cultural projects, mainly in the elementary education and health care areas; to support ongoing projects or initiatives, supported or sponsored by entities qualified under "Programa Itaú Social”. Itaú Unibanco is the founding partner and maintainer of Instituto Itaú Cultural - IIC, an entity whose purpose is the promotion and preservation of the Brazilian cultural heritage.

NOTE 35 – MANAGEMENT OF FINANCIAL RISKS

Credit Risk

Credit risk, pursuant to the Central Bank of Brazil Resolution No. 3,721, is defined as the possibility of incurring financial losses in connection with: (i) the breach by the borrower or counterparty of their respective financial obligations, (ii) the loss of value of a financial asset as result of the downgrade of the counterparty's risk rating, (iii) the reduction in gains or income, concessions given on renegotiation of the financial assets and (iv) the costs of recovery.

Management of credit risk by ITAÚ UNIBANCO HOLDING is performed with the objective of maximizing the relationship between of its assets, maintaining the credit portfolio quality at levels considered appropriate for each market segment in which it operates. The strategy is focused in creating value to the stockholders at levels above a minimum risk-adjusted return.

ITAÚ UNIBANCO HOLDING establishes its credit policies considering internal and external factors. Among the internal factors, we highlight the client rating criteria, analysis of evolution of the portfolios, observed levels of default, actual rates of return, the quality of the portfolio quality and allocated economic capital. External factors are related to the economic environment in Brazil and abroad, including factors such as market share, interest rates, market default indicators, inflation, and increase (or decrease) in levels of consumer spending.

The process for making decisions and establishing the credit policy of ITAÚ UNIBANCO HOLDING is designed to achieve coordinated credit actions and to optimize business opportunities, through a structure of committees and commissions. With respect to retail lending, decisions about granting and managing the credit portfolio are made based on scoring models that are continuously monitored. With respect to wholesale lending, several committees are subordinated to the Management Committee responsible for credit risk management through a structure of levels of approval that ensures detailed analysis of the risk of the transaction, as well as provides the necessary timeliness and flexibility for the approval process.

1. Credit risk measurement

1.1 Loans to customers and financial assets from financial institutions

Itaú Unibanco Holding takes into account three components to quantify the credit risk: the probability of default by the client or counterparty (PD), the estimated exposure in the event of default (EAD), and the potential for recovery on defaulted on credits (LGD). Measurement and assessment of these risk components is part of the process for granting credit and for managing the portfolio.

The credit risk rating of customers and of economic groups reflect their probability of default, and is a fundamental element in the process for measuring risk, because it is used to determine the credit limits. The following table shows the relationship between the risk levels of the internal models (Low, Medium, High, Impairment) of the group and the probability of default associated with each of these levels.

Internal Rating	PD
Strong	Low 4.44%
Satisfactory	Low 25.95%
Higher Risk	High 25.95%
Impairment	Corporate operations with PD high 31.84% Operations past due for over 90 days Renegotiated operations past due for over 60 days

The credit rating for wholesale transactions is based on information such as economic and financial condition of the potential borrower, , its cash-generating capabilities, the economic group to which it belongs, , the current and prospective situation of the economic sector in which it operates, the collateral offered and the use of proceeds.

With respect to retail transactions (individuals and small and middle market companies), the rating is assigned based on statistical models of credit and behavior score. Extraordinarily, an individual analysis of specific cases may be performed, in which case credit approval follows the applicable approval levels.

1.2 Government and other debt instruments

Government securities and other debt instruments are classified according to their credit quality with the purpose of managing the credit risk exposures.

2. Control risk limits

Itaú Unibanco Holding controls the exposure and concentration of credit risk by type of economic activity, geographical region, type of products and other variables that it deems relevant, through the establishment of maximum exposure limits considered acceptable, and the monitoring of early-warning alerts, such as overdue indicators and the pattern of use of credit limits. This process aims to align the strategies established by the organization considering changes in the credit scenario.

In addition, the group strictly controls the credit exposure of clients and counterparties, actively taking action to address situations in which the actual exposure exceeds the desired one. For that purpose, the loan contracts include provisions in certain circumstances such as right to demand early payment or requirement of additional collateral.

3. Collateral and policies for mitigating credit risk

Itaú Unibanco Holding manages collateral in order to reduce the amount of losses on transactions that present credit risk. Collaterals are used in order to adjust the potential for credit recovery in the event of default and not to reduce the exposure from clients or counterparties.

Collaterals are an important credit risk management tool, and for this reason, they are only accepted when they meet the criteria established by the group.

Itaú Unibanco Holding manages the collaterals with the purpose of that any collateral kept is sufficient, that are legally valid, enforceable and that are periodically reassessed.

Itaú Unibanco Holding also uses credit derivatives, such as single name CDS, to mitigate the risk of its portfolios of loans and securities, These instruments are priced based on models that use the fair value of market inputs, such as credit spreads, recovery rates, correlations and interest rates.

Commitments to grant credit (e.g. overdraft limits, pre-approved limits, commitments to grant credit, standby letters of credit, and other guarantees) represent undrawn amounts of the value available in loans. The maximum exposure, considering the total utilization of the limits in shown in the table below. The limits are continually monitored and changed according to costumer behavior. Thus, the potential loss values represent a fraction of the amount available.

4. Policies on recognition of allowance for loan losses

The policies for recognition of allowance for loan losses adopted by Itaú Unibanco Holding are aligned with the guidelines of IFRS. As a result, a allowance for loan losses are recognized as from the moment where there are indications of the impairment of the portfolio and take into account a horizon of loss appropriate for each type of transaction. We consider impaired loans overdue for more than 90 days, renegotiated loans overdue more than 60 days and corporate loans below a specific internal rating. Loans are written-down 360 days after such loans being past due or 540 days of being past due in the case of loans with original maturities over 36 months.

5. Credit risk exposure

	Brazil	Abroad	Total
Interbank deposits	4,684	10,151	14,835
Securities purchased under agreements to resell	87,396	1,286	88,682
Financial assets held for trading	101,815	13,682	115,497
Financial assets designated at fair value through profit or loss	-	306	306
Derivatives	5,571	2,206	7,777
Available-for-sale financial assets	19,602	24,937	44,539
Held-to-maturity financial assets	2,478	692	3,170
Loan operations	241,479	54,008	295,487
Other financial assets	35,639	5,094	40,733
Off Balance	214,962	7,074	222,036
Endorsements and sureties	36,510	1,864	38,374
Letters of credit	8,628	-	8,628
Commitments to be released	169,824	5,210	175,034
Real estate loan	9,064	-	9,064
Overdraft accounts	82,299	-	82,299
Credit card	72,034	522	72,556
Other pre-approved limits	6,427	4,688	11,115
Total	**713,626**	**119,436**	**833,062**

The table below presents the maximum exposure at December 31, 2010, without considering any collateral received or any other credits improvements added.

For assets recognized in the balance sheet, the exposures presented are based on its carrying amounts. This analysis only includes financial assets subject to credit risk and excludes non-financial assets.

For guarantees (endorsements, sureties and letters of credit) the maximum exposure to credit risk is the amount that Itaú Unibanco Holding may disburse, if the guarantees were enforced.

As shown in the table chart, the most significant exposures correspond to loan operations, financial assets held for trading, interbank deposits and other exposures to financial institutions (mainly securities purchased under agreement to resell) as well as off-balance sheet exposures.

The following is observed with respect to the quality of the financial assets presented as maximum exposure:

- 78% of loan operations and other financial assets of the total loans operations and other financial assets exposure (Table 6,1 and 6,1,2) are categorized as low probability of default in accordance with our internal rating;

- only 1.5% of the total loans exposure (Table 6,1) is represented by overdue credits not impaired; and

- 2.6% of the total loans exposure (Table 6, 1) corresponds to overdue loans impaired.

5.1 Maximum exposure of financial assets segregated by business sector

a) Loan operations

	12/31/2010	%
Public sector	1,138	0.39%
Industry and Commerce	84,997	28.77%
Services	60,295	20.41%
Primary sector	13,933	4.72%
Individuals	132,939	44.99%
Other sectors	2,185	0.74%
Total	**295,487**	**100.00%**

b) Other Financial Assets (*)

	12/31/2010	%
Primary sector	581	0.21%
Public sector	85,058	31.03%
Industry and Commerce	5,614	2.04%
Services	72,491	26.38%
Other sectors	7,218	2.63%
Individuals	21	0.04%
Financial institutions	103,517	37.67%
Total	**274,500**	**100.00%**

(*) includes financial assets held for trading, derivatives, assets designated at fair value through profit or loss, available-for-sale financial assets, held-to-maturity financial assets, and interbank deposits and Securities purchased under agreements to resell .

c) The credit risks of "off balance" items (endorsements and sureties, letters of credit and commitments to be released) are not categorized nor managed by business sector.

6. Credit quality of financial assets

6.1 The following table shows the breakdown of loans considering loans not overdue, overdue loans with or without loss event, at December 31, 2010:

Internal Rating	Loans not overdue	Overdue loans without loss event	Overdue loans with loss event	Total loans
Low	199,716	1,267	-	200,983
Medium	59,427	1,188	-	60,615
High	17,852	2,160	-	20,012
Impairment	6,263	-	7,614	13,877
Total	**283,258**	**4,615**	**7,614**	**295,487**
%	**95.9%**	**1.5%**	**2.6%**	**100.0%**

6.1.1 Loan operations, overdue without loss event, are classified by maturity at December 31, 2010, as follows:

Up to 30 days overdue	2,978
31-60 days overdue	1,010
61-90 days overdue	627
Total	**4,615**

6.1.2 The table below shows other financial assets classified by rating on December 31, 2010:

Internal Rating	Interbank deposits and securities purchased under agreements to resell	Financial assets held for trading	Derivatives assets	Available-for-sale financial assets	Held-to-maturity financial assets	Total
Low	103,517	107,798	5,140	22,055	3,163	241,673
Medium	-	7,564	2,577	22,428	7	32,576
High	-	135	60	56	-	251
Total	**103,517**	**115,497**	**7,777**	**44,539**	**3,170**	**274,500**
%	**37.7%**	**42.1%**	**2.8%**	**16.2%**	**1.2%**	**100.0%**

Financial assets that are overdue without a loss event but not impaired or those individually assessed that are overdue with a loss event are partially or fully covered by collaterals.

With respect loans to corporations a considerable amount of transactions have collateral whose nature depends on the purpose of the credit purpose. Loans to finance the production of goods have as the most common collateral machinery and equipment. Working capital financing are usually collateralized by trade notes or checks, credit card receivables, endorsements or by the joint obligation of the owners of the company and/or of third parties. Financing for investments usually is collateralized through pledge or mortgage of the financed asset. In addition, the following collaterals may be also required: financial investments, shares of funds, debt securities and other instruments.

With respect to loans to individuals, collaterals are mainly required in real estate loans and vehicle financing operations, where the financed goods are pledged as collateral. With respect to other credit products, the requirement of collaterals is less frequent, but may exist in which case the most common collateral are financial investments.

7. Renegotiated loans operations

Restructuring activities include agreements for payment extension, change and deferral of payments. After the restructuring, the client account (previously overdue) is no longer considered to be past due and is rated (considering all available information including the renegotiation) on the appropriate rating category. Renegotiated credit operations that would otherwise be overdue at December 31, 2010, totaled R$ 9,032.

8. Repossessed assets

Repossessed assets are recognized as assets when effectively seized.

Assets received from the foreclosure of loans, including real estate, are initially recorded at the lower amount between: (i) the fair value of the asset less the estimated selling expenses, and (ii) the carrying amount of the loan.

Further impairment of assets is recorded against expenses. The maintenance costs of these assets are expensed as incurred. Pursuant to the Brazilian banking rules, we shall dispose of these assets in one year after they are seized.

The policy for sales of these assets (assets not for use) includes periodic auctions that are previously marketed and considering that the assets can not be held for more than one year as stipulated by the BACEN.

The amounts below represent total assets repossessed during 2010.

	2010
Real estate not for own use	3
Residential properties – real estate loan	21
Vehicles – linked to loan operations	68
Other (vehicles/real estate/equipment) – payment in kind	2
Total	**94**

Market risk

Market risk is the possibility of incurring financial losses arising from the changes in the fair value of positions held by a financial institution, as well as from losses on its financial margin, including the risks of transactions subject to changes in foreign exchange, interest rates, shares and commodity prices.

Market Risk Management is the process through which the institution manages and controls potential risks arising from changes in market prices of financial instruments, which can directly or indirectly affect the value of our assets, liabilities and off-balance sheet positions. Its main objectives are controlling the exposure to market risks while optimizing the risk-return ratio through the use of models and advanced management tools.

The market risk controls cover all financial instruments of the portfolios of companies owned by Itaú Unibanco Holding and the related significant processes and controls.

The Policy on Market Risk Management of Itaú Unibanco Holding is in line with the principles of CMN Resolution No. 3,464 of the Central Bank of Brazil. It is a set of principles that drive the institution's strategy towards control and management of market risks of all business units and legal entities of the group.

Risk Management Strategy of Itaú Unibanco Holding

Itaú Unibanco Holding requires the use of comprehensive methods and of complementary methods, as well as of quantitative and qualitative tools to estimate, monitor and manage risks, based on the market best practices.

The development of portfolio optimization models helps to determine which portfolio of financial assets has the best risk-return ratio.

The risk management strategy of Itaú Unibanco Holding aims at achieving a balance between the business objectives of the company and its risk appetite, considering the following:

- Political, economic and market context;
- Market risk portfolio of the institution;
- Expertise to operate in specific markets.

Market risk is controlled by the Market and Liquidity Risk Control Area, which carries out the daily measurement, assessment and reporting activities through control units operating in the different legal entities.

The Market and Liquidity Risk Control Area also carries out the consolidated monitoring, assessment and reporting of market risk information, with the objective of providing input for the monitoring by senior-level committees and complying with the Brazilian regulatory body.

The market risk control and management process is subject to periodic reviews with the purposes of keeping the process aligned with best market practices and complying with continuous improvement processes at Itaú Unibanco Holding

Risk identification

The treasury operations of Itaú Unibanco Holding are classified according to the trading intention according to the following criteria:

- Trading portfolio (Trading book): consists of all transactions involving financial instruments and commodities, including derivatives, which are held with the intention of trading or to hedge other elements of the trading book and are not subject to limitations on their marketability. Transactions held in the trading book are those intended for resale, for obtaining benefits from changes in expected or actual prices or entering into arbitrage activities.

- Non-trading portfolio (Banking book): consists of all transactions not classified in the Trading Book. Corresponds to structural transactions and their corresponding hedges, as well as transactions entered into to manage the non-trading portfolio.

The exposures to market risks of products, including derivatives, are broken down by risk factors. A risk factor refers to a market benchmark whose change results in impact in income.

The main risk factors are described below:

- Interest rate risk: risk of financial losses on operations subject to changes in interest rates, including the following:
  - Fixed rates in real;
  - Foreign currency coupon rates;
  - Price index coupon rates;
  - Fixed coupon rates in real (TR and TJLP).
- Foreign exchange risk: risk of financial losses on positions in foreign currency and operations subject to foreign exchange variation;
- Share price risk: risk of financial losses on operations subject to changes in share prices.

Risk Measures

Risk assessments are conducted for each risk factor by estimating potential losses with the adoption models of Value at Risk, or VaR, based on the statistical behavior of risk factors, with a level of confidence at 99%. The main technique adopted to quantify the risk is a measure, based on market parameters, of the potential reduction (or increase) of the fair value of assets (or liabilities) associated with the change in the risk factor by the market parameter. The risk assessment process quantifies the exposure to and the appetite for risk using: (i) risk limits based on market risk factors, (ii) VaR (level of confidence at 99%), (iii) stress testing's, and (iv) analysis of unrealized results.

- Calculation of statistic Value at Risk (VaR - Value at Risk): Statistic measure that estimates the expected maximum potential economic loss under regular market conditions, taking into consideration a defined time period and confidence level;
- Calculation of losses in stress scenarios (Stress testing's): Simulation technique to assess the behavior of assets and liabilities of a portfolio when several financial factors are considered in extreme market situations (based on projected scenarios or hypotheses);
- Stop loss alert: Effective losses added to the maximum potential loss in optimistic and pessimistic scenarios;
- Unrealized result analysis: Assessment of the difference between the carrying amount (including accrued interest) and the fair value, in a normal and a stress scenario considering accounting asymmetries.

The internal VaR model used by Itau Unibanco considers 1 day holding period and 99% as confidence level, implying that there is the probability of occurring financial losses higher than the estimated figures in 1% of the events. To encompass market occurrences with larger oscillations and considering VaR's inherent limitations, we complement the analyses with the additional metrics described above.

Control over losses

- Stop Loss: Maximum loss that a trader, a sub desk or the desks with operations classified in the Trading portfolio may reach.

Structure of Limits

The risk management process starts with the establishment of limits, which are approved by the Institutional Treasury Superior Committee. The market risk limits are structured in accordance with the guidelines established by the Risk Superior Committee, considering projected balance sheet, the level of equity and the profile of risk of each legal entity, which are defined in terms of the risk measures used by management;

- Upper Limits: Defined by the Institutional Treasury Superior Committee with daily controls performed by the control units and the monitoring and reporting to the Superior Committees being the responsibility of the Market and Liquidity Risk Control Area;

- Internal Limits: Defined by risk management local committees and controlled directly by the control units and must observe the upper limits.

These limits are informed to the risk control division of the relevant business unit that are responsible for the risk management daily activities and that provide information periodically to the risk control division of Itaú Unibanco Holding. Our risk control division monitors the scope, accuracy and quality of our controls. The risk control cycle is finalized disclosing a consolidated risk report to the Institutional Treasury Superior Committee. The committee is responsible for monitoring all strategies and exposures, understanding and managing them on a consolidated corporate level.

Allocated Economic Capital

- Used as a tool to ensure that we will be able to absorb the impact of unexpected losses and that we will be able to continue our business in adverse scenarios.

Market Risk Monitoring

The group has a unified Market Risk management area, focused on controlling the market risk of Itaú Unibanco and its affiliates. The risks management of Itaú Unibanco Holding is carried out through the control of statistical VaR. Additionally stress scenarios are used for assessing market risks in the portfolios of Itaú Unibanco Holding

As a result of the merger with Unibanco the models, risks controls and procedures in place in Itaú BBA, Unibanco and Itaú were unified during 2009.

The risk is monitored through VaR models, VaR stress scenarios, stop loss limits (prevention of losses), stop loss alerts (warning that stop loss limits may be reached on stress scenarios) and gains and loss simulations based on stress scenarios.

Consolidated ITAÚ UNIBANCO HOLDING

VaR Global shown in the tables below comprises consolidated VaR of the domestic and international operations of ITAÚ UNIBANCO HOLDING, also comprising the portfolios of Itaú Unibanco, Itaú BBA, Banco Itaú Europa, Banco Itaú Argentina, Banco Itaú Chile, Banco Itaú Paraguai and Banco Itaú Uruguai. The portfolios of Itaú Unibanco and Itaú BBA are presented jointly, segregated by risk factor.

ITAÚ UNIBANCO HOLDING seeks to keep an operating policy within low limits regarding our capital basis. We noted that the diversification of risk within our business units was significant, reducing VaR global. In 2010, average VaR of VaR global was R$ 109.4 million, or 0.16% of total stockholders' equity.

VaR Global (*)

	2010			
	12/31/2010	**Average**	**Minimum**	**Maximum**
Risk factor			**(in R$ million)**	
Interest Rate				
Fixed income	77.8	65.2	26.5	102.4
Reference Rate	28.4	33.1	18.2	57.5
Interest rate linked to dollar	13.0	12.9	2.6	38.0
Interest rate linked to inflation rate	18.6	17.1	6.4	30.0
Sovereign bonds	4.3	5.5	1.1	12.8
International interest rate	15.1	6.4	1.5	16.7
Commodities				
Commodities	18.5	10.8	2.3	40.1
Foreign exchange rate				
Foreign currency risk – other	5.7	8.5	0.4	23.4
Exchange rate – U.S. dollar	9.7	12.5	0.6	34.6
Shares				
Shares	14.4	15.1	5.1	27.7
Other				
Other	2.4	4.8	1.1	31.2
Itaú Argentina	1.6	1.0	0.4	2.3
Itaú Chile	3.3	5.1	2.6	9.4
Itaú Uruguai	0.2	0.4	0.2	0.8
Itaú Europa	0.6	1.3	0.5	3.4
Itaú Paraguai	0.9	0.6	0.2	1.6
Effect of diversification	(82.8)	0.0	0.0	0.0
Total	**131.9**	**109.4**	**61.6**	**181.8**

(*) Adjusted to reflect the tax treatment of individual classes of assets.

The following table sets forth our interest-earning assets and interest-bearing liabilities position as of December 31, 2010 and therefore does not reflect interest rate gap positions that may exist as of any given date. In addition, variations in interest rate sensitivity may exist within the re-pricing periods presented due to differing re-pricing dates within the period.

Interest rate risk (*)

	0-30	31-180	181-365	1-3 years	Over 3 years	Total
Interest-bearing assets	**258,766**	**145,250**	**69,989**	**151,046**	**66,973**	**692,024**
Interbank deposits	8,209	2,954	3,153	518	1	14,835
Securities purchased under agreements to resell	47,929	32,267	1,898	5,165	1,423	88,682
Central Bank compulsory deposits	81,304	-	-	-	-	81,304
Financial assets held for trading and designated at fair value through profit or loss	28,366	19,403	10,936	29,507	27,285	115,497
Available-for-sale investments	6,809	8,098	4,659	8,249	16,724	44,539
Held-to-maturity investments	4	144	136	295	2,591	3,170
Derivatives	1,142	2,602	1,315	1,212	1,506	7,777
Loan operations	44,270	79,782	47,892	106,100	17,443	295,487
Other Financial Assets	40,733	-	-	-	-	40,733
Interest-bearing liabilities	**215,123**	**57,971**	**48,752**	**135,652**	**77,045**	**534,543**
Savings deposits	57,900	-	-	-	-	57,900
Time deposits	15,333	16,714	21,476	33,002	29,892	116,417
Interbank deposits	348	836	505	203	37	1,929
Investment deposits	906	-	-	-	-	906
Money market	89,010	21,369	12,067	60,200	17,011	199,657
Interbank market	4,905	16,209	11,438	20,897	9,150	62,599
Institutional market	658	1,419	1,857	20,261	20,318	44,513
Derivatives	1,113	1,424	1,409	1,089	637	5,672
Financial liabilities designated at fair value through profit and loss	1,335	-	-	-	-	1,335
Other Financial Liabilities	41,012	-	-	-	-	41,012
Liabilities of Capitalization Certificates	2,603	-	-	-	-	2,603
Difference asset/liability	43,643	87,279	21,237	15,394	(10,072)	157,481
Cumulative difference	**43,643**	**87,279**	**21,237**	**15,394**	**5,322**	
Ratio of cumulative difference to total remunerated assets	6.5%	12.6%	3.1%	2.2%	0.8%	

(*) Breakdown by time bucket is based at contractual maturities.

FOREIGN CURRENCY RISK

The following table presents financial assets and financial liabilities denominated in currencies different than the Brazilian real:

ASSETS	Dollar	Euro	Yen	Other	Total
Cash and cash equivalents	3,433	124	130	1,154	4,841
Central Bank compulsory deposits	-	8	-	898	906
Interbank deposits	6,726	2,724	-	701	10,151
Securities purchased under agreements to resell	1,177	-		109	1,286
Financial assets held for trading	12,447	694	-	541	13,682
Financial assets designated at fair value through profit or loss	-	306		-	306
Derivatives	1,974	111	-	121	2,206
Available-for-sale financial assets	22,320	47	-	2,570	24,937
Held-to-maturity financial assets	692	-	-	-	692
Loan operations, net	30,558	4,158	2,511	16,024	53,251
TOTAL ASSETS	**79,327**	**8,172**	**2,641**	**22,118**	**112,258**

LIABILITIES	Dollar	Euro	Yen	Other	Total
Deposits	21,603	1,435	274	13,822	37,134
Securities sold under repurchase agreements	15,327	-	-	259	15,586
Financial liabilities held for trading	-	1,335	-	-	1,335
Derivatives	1,684	119	-	130	1,933
Interbank accounts	25,013	712	1	1,360	27,086
Interbranch accounts	27,355	1,333	-	932	29,620
TOTAL LIABILITIES	**90,982**	**4,934**	**275**	**16,503**	**112,694**

NET POSITION	**(11,655)**	**3,238**	**2,366**	**5,615**	**(436)**

The exposure to stock risk is disclosed in note 6 related to financial assets held for trading and note 9, related to available-for-sale financial assets.

Liquidity Risk

Liquidity risk is defined as the existence of imbalances between marketable assets and liabilities due – "mismatching" between payments and receipts - which may affect the institution's payment capacity, taking into consideration the different currencies and payment terms and their respective rights and obligations.

Policies and Procedures

Management of liquidity risk seeks to adopt best practices to avoid having insufficient cash available and to avoid difficulties in meeting obligations due.

Itaú Unibanco Holding has a structure dedicated to improve the monitoring and analysis, through models of statistical and economic-financial projections, of the variables that affect cash flows and the level of reserves in local and foreign currencies.

Additionally, Itaú Unibanco Holding establishes guidelines and limits whose compliance is periodically analyzed in technical committees, and whose purpose is providing an additional safety margin to the minimum projected needs. The liquidity management policies and the respective limits are established based on prospective scenarios periodically reviewed and on the definitions of the Institutional Treasury Superior Committee – Liquidity.

These scenarios may be reviewed when needed, considering the cash needs, due to atypical market situations or arising from strategic decisions.

Primary Sources of Funding

Itaú Unibanco Holding has different sources of funding, of which a significant portion is from the retail segment. Total funding from clients reached R$ 362.8 billion in the fourth quarter of 2010, particularly funding from time deposits. A considerable portion of these funds – 29.5% of total, or R$ 107.3 billion – may be redeemed in less than 30 days. However, the historical behavior of the two largest items in this group – demand and savings deposits - is relatively steady with the balances increasing over time and inflows exceeding outflows when monthly average amounts are considered.

Funds from Clients	December 2010		
	0-30 days	Total	%
Deposits	99,891	202,688	
Demand	25,349	25,349	7.0
Savings	57,899	57,900	16.0
Time	15,333	116,416	32.1
Other	1,310	3,023	0.8
Funds from acceptance and issuance of securities (1)	3,418	24,304	6.7
Funds from own issue (2)	3,983	101,278	27.9
Subordinated debt	28	34,487	9.5
	107,320	**362,757**	

(1) Includes Mortgage Notes, Real Estate Credit Bills, Agribusiness and Financial Bills recorded in Interbank and Institutional Market Funds and Liabilities for Issue of Debentures and Foreign Borrowings and Securities recorded in Funds from Institutional Markets.

(2) Refer to Deposits Received under Securities Repurchase Agreements with securities from own issue.

Controls over liquidity

Itaú Unibanco Holding manages its liquidity reserves based on estimates of funds that will be available for financial investment considering the business in usual conditions.

During the fourth quarter of 2010, Itaú Unibanco Holding maintained appropriate levels of liquidity in Brazil and abroad. Liquid assets (cash and cash equivalents, securities purchased under agreements to resell and government securities available) totaled R$ 59.3 billion and accounted for 55.1% of the short-term redeemable obligations, 16.3% of total funding, and 12.9% of total assets. A significant portion of our assets used to manage liquidity (consisting of cash and cash equivalents and securities purchased under agreements to resell) are available on demand or mature in less than 180 days.

The table below shows the indicators used by ITAÚ UNIBANCO HOLDING in the management of liquidity risk:

Liquidity Indicators	**%**
Net assets / Funds within 30 days	55.1
Net assets / Total funds	16.3
Net assets / Total assets	12.9

In addition, we present the liabilities per remaining contractual maturities considering their flows undiscounted, except derivatives that are presented at their discounted amounts:

Amounts in R$ million

Future Flows Undiscounted except for derivatives financial instruments	**December 31, 2010**			
Liabilities	**0 - 30**	**31 - 365**	**Over 365 days**	**Total**
Deposits	**100,293**	**43,095**	**81,945**	**225,333**
Demand deposits	25,532	-	-	25,532
Savings deposits	57,900	-	-	57,900
Time deposit	15,531	41,687	81,693	138,911
Interbank deposit	424	1,408	252	2,084
Other deposits	906	-	-	906
Securities sold under repurchase agreements (1)	**89,365**	**35,559**	**89,579**	**214,503**
Funds from acceptances and issuance of securities (2)	**3,455**	**11,825**	**12,078**	**27,358**
Borrowings and on lending (3)	**2,372**	**19,742**	**34,278**	**56,392**
Subordinated debt (4)	**28**	**2,038**	**44,196**	**46,262**
Derivative financial instruments (5)	**1,113**	**2,831**	**1,727**	**5,671**
	196,626	**115,090**	**263,803**	**575,519**

(1) Includes Own and Third Parties' Portfolios.

(2) Includes Mortgage Notes, Real Estate Credit Bills, Agribusiness and Financial Bills recorded in Interbank and Institutional Market Funds and Liabilities for Issue of Debentures and Foreign Borrowings and Securities recorded in Funds from Institutional Markets.

(3) Recorded in Funds from Interbank Markets.

(4) Recorded in Funds from Institutional Markets

(5) Liquidity with respect to derivative financial instruments is managed based on its fair value.