Local Conference Call
Itaú Unibanco Holding International
Fourth Quarter 2012 Earnings Results
February 6th, 2013

Operator: Ladies and gentlemen, thank you for standing by. We inform you that this conference call aims exclusively to discuss the earnings results of Itaú Unibanco Holding regarding the fourth quarter and year 2012.

At this time all lines are in a listen-only mode. Later there will be a question and answer session and instructions to participate will be given at that time. If you need assistance during the call, please press the star key followed by zero (*0). As a reminder, this conference is being recorded and broadcast live on **www.itau-unibanco.com/ir**. A slide presentation is also available on this site.

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

With us today in this conference call in São Paulo are **Roberto Egydio Setubal**,CEO; **Alfredo Egydio Setubal**, Executive Vice President and Investor Relations Officer; **Caio Ibrahim David**, Chief Financial Officer; and **Rogério Calderón**, Corporate Controller & Head of Investor Relations.

First, Mr. Roberto Setubal will comment on the fourth quarter and year 2012 results. Afterwards, management will be available for a question and answer session.

It is now my pleasure to turn the call over to Mr. Setubal.

Mr. Alfredo Setubal: Hello, good afternoon and good morning for all of you. It is a pleasure to be here to speak about our results. I'd like to start with screen number 2, with our highlights for the year; we had a recurring net income for the quarter of R$ 3.5 billion and for the year R$ 14 billion. ROE was 19.3 for the quarter and 19.4 for the year, and I will comment this down the road.

Assets exceeded R$ 1 trillion overall, but overall, I would say that we had a very challenging year, 2012 was not an easy year; we had reduction in rates, pressure on margins, delinquency increasing, but I believe that we end up the year in good shape because we were able to control delinquency – as we will show you down the road in this presentation – we finished the year below the levels of December 2011, and I think this was a great achievement for the year.

Margins are reducing and we have been managing the PNL of the bank in order to adapt to this new environment, I think we were very successful in controlling expenses, and this made it possible to deliver these results that we had.

Provisions for loan losses are now on the way down, in accordance with the NPL trends, so I think that we are ending the year in a much better shape than when we started the year when NPL provisions were increasing.

We announced over the year also a big investment in technology, R$ 10.4 billion; this will be invested over a three-year period, this has to do with the new Data Center that we already started to build 100 km from São Paulo, we are also investing in new technologies and new systems in order to comply, to be able to do what we plan to do in terms of quality in services, in terms of agility to serve clients, so on and so forth.

We also announced a partnership with BMG. I think we are pretty much in line with the schedule in order to make it operational, it will start in March fully operational, it's already piloting terms, but anyway, we are supporting BMG acquiring the loans so that they could expand the distribution force, and we probably will start in high levels of production for the JV, in higher-level than we expected when we planned the acquisition.

We also finalized the tender offer for the minority stake of Redecard, where we invested R$ 11.8 billion – that we show in the next screen, page 3 – we accounted this transaction as a capital transaction aligned with the international standard and with our consolidated financial statements in IFRS.

The important thing, I believe (in this is the way that we accounted here), is the fact that this will not impact our results in the future, so the full impact of the premium that we paid for Redecard is already on our balance sheet in our consolidated statements, so there will be no impact down the road for that.

Even though we have this equity reduction, we are in good shape in terms of capital levels, we ended the year with 16.7, which is very comfortable, and considering that the adequate treatment for the deferred tax assets that we have here in Brazil, our core capital ratio according to Basel 3 concepts after this impacts Redecard. So, we are in good shape in terms of capital and we believe that the acquisition will pay off down the road.

On page 4, we have our PNL, I won't comment the numbers, but I will more spend time commenting with you our strategy as the way we have been describing with many of you; it is already paying off, we can show clear results of what we have planned for the year. At the beginning of that year we decided that we should change our risk appetite – as a matter of fact it started in 2010, but in 2011 it was fully implemented – and we completely changed our risk appetite so that we moved out of some subprime high risk kind of segment and assets, and nowadays we have been seeing that this is already paying off at the end of the year.

In fact, although our margins are still declining (as we expected because we moved out a full segment with high margins), our services revenue and insurance revenue increased sharply in the end of the year although we had some seasonality there. I believe that the numbers are above the seasonality issues.

So, the things that we were expecting are already coming down the road as facts, and although margins have been reducing, and the expenses for loan losses also have been reduced, so things are coming to the right place as we have been describing as a plan, but now it is not a plan, is already on the numbers.

Also, we have been very focused in terms of getting more efficiency, so we have been controlling our expenses, noninterest expenses, in a very tough way so that for the year we had a 1.8 growth in noninterest expenses so that this was below inflation, it was much below asset growth and revenues, so we have been gaining efficiency, and this is something that we plan to keep a close eye on this part of the business.

Next page, page 5, we show what we classified as non-recurring events. Non-recurring events defined by the fact that in those issues here we have changed the criteria that we were using to account for them. For instance, in terms of economic plans we have done a very detailed analysis, case-by-case analysis so that we had a more precise provision for the commitments that we have had, much more precise than we had before when we used to use a more simplified model to make the provisions.

That's the same pace for the labor claims; we went for a much more detailed analysis of large cases of labor claims and not using the average as we were doing before, so this represents a change in terms of criteria that we were doing.

Also, in terms of loan losses, we have changed some of the models in order to have a more close and precise rating for clients that need to change, so if we were using the same criteria that we were using in previous quarters, we would not have this level of additional provisions, but since we have changed – because we believe that this more precise – now we have this addition of provision that we are putting on nonrecurring expenses.

In the next page, page 6, we made an interesting calculation showing that – and it's very important because some of you have questions if this would not be a recurring…I would like to say that it's related much more on, exclusively, changing criteria and does not have to do to any specific asset or loan that is past due, there is no provisions for the quarter related to past due loans, we have done the recurring statements here, we have only done revision in our criteria so that we classified it as non-recurring.

And this is very clear here in page 6 when we applied the idea, the concept of "ok, let us show that we would get the level of coverage of that two loans and provisions at the same level that we had in the quarter before". When you see the numbers you can see that we have improved our coverage by a large extend, bigger than what we had classified as nonrecurring. So, what we're doing is making our provisions stronger and not having to do anything about loans that are already past due. So this was the concept that we used for that classification.

On next page we have this ROE of 19.4%, which was benefited by the fact that we have reduced the equity of the bank because of that Redecard transaction. If we had not done that the fourth quarter would be 17.7% in terms of ROE, so this new level of ROE has to do also, in part, with the accounted for Redecard.

Loans was a slow-growth year in terms of loan, we have grown 9%, and here we have clear impact that can be seen in vehicles and the very small and medium markets companies' loans, those two segments we have a very negative growth in both segments that impacted the overall growth of our portfolio. In those two segments were the most impacted by the new risk appetite policy that we have in place. So, this was a reduction and we expect that by the second quarter of next year those two portfolios will be already growing.

Next screen, screen 9, we have the evolution of our net credit spread, which is the strong green line; interest and net of provisions. So, we can see that although we still have a margin that is still falling, when we look at net of provisions it is already stabilizing and we expect it to grow next year. The overall NIM has reduced more sharply this quarter for many reasons (and I will explain this in the next page, page 10 that is very different in tax here).

First, we had an increase in volume that come from additional revenue in our margins, but given the new risk appetite – and the new risk appetite has impacted the way we… not the way, but the volume that we are working in different products of the bank – so, higher, for instance, overdrafts (which are higher risk products and higher margins) have been reduced in our portfolio, so this is an example of the mix of credit have been impacted because of this new underwriting policy.

Also, the acquisition of Redecard reduced our cash position in R$12 billion almost, and this also reduced the margin, although we do not have the minority shareholding participation in Redecard, so, in terms of bottom line, it was a positive impact. We also had the Selic rate reduction, which also impacted the numbers.

And finally, we have (which was a minor report) the margins and others effects that were compressed for different reasons here. So this was an important understanding of how our businesses are evolving and how affect our margin but pretty much explained by many ways we already expected. The main factor was the mix of products, which was a result of the new risk appetite.

Those are the bad news, but the good news we start to see in page 11, which accounts for delinquency. The delinquency ratio has been consistently reduced and we have been, during the whole year, reduced our level of short-term delinquency ratio and NPL creation has already came down by a large factor.

And on the next page, page 12, we can see that over 90-day-NPL ratio is also already showing good results here both in companies and also in consumers. I have to mention that on the consumer side we have sold assets for affiliated companies in an amount about R$ 480 million. This had a 10 bps impact in our overall delinquency ratio. So, even if we did not had sold those assets we'd still have a drop of 4.9, but still a good drop.

Yet we have sold were auto loans, which have delinquency for more than 20 years, so we are adopting this as a new policy, this won't have the same level of impact in the coming quarters because this was a totaled stock of loan over one year that we had, now on, we receive much smaller numbers because it will be basically the new things that we have below one year that will go on this process.

Our coverage – as a result of all of those things, all these improvements and the addition of provisions that we have made – has improved in a good amount, so we have come from 149 to 158 in terms of coverage ratio, so above last quarter and above December last year.

Let me move to page 15, just to show you that our franchise of capturing deposit from clients; very strong. We have gained some market share this year, the growth we had was 16.5%; it's a very strong client franchise. We achieved more than R$ 1 trillion directly from clients. As a result of that, since loans have not grown as much, we have improved the ratio of loan to funding, as can be seen in page 15.

On page 17 is just picture of our new strategy that we have implemented during the year in the bank, putting more emphasis on insurance and services revenue given the fact that we had a reduction in margins, so this has offset somehow the loss in margins and we have, as a matter of fact, grown last quarter and the total revenue has grown mainly given to this new trend.

We have some seasonality in those numbers clearly, but even though the improvement was about the seasonality level – as we can see when we compare to last year's numbers (three and fourth quarters).

Our efficiency ratio has improved this year mainly because of our tough control on expenses, as we show in page 18; we have grown only 1.8% expenses, so much below the level of inflation, much below asset growth and deposits and so on and so forth. So, the bank is clearly gaining productivity and this appears in our income… our efficiency ratio, as we can see on page 19.

On page 21, we can see our movements that we have seen in our BIS ratio, which has reached at the level of 16.7; below than last quarter's (September), mainly because of Redecard, as we show here on the side, but above last year's number. So, we are very comfortable with the overall capitalization of the bank.

The volume of our trading has kept in high levels, so I think it is very high, which is very good, and on page 23 we can check the guidance that we gave you for the year, what has been achieved and what has not been achieved. At the beginning of the year we announced a change in our risk appetite, so this affected our portfolio growth (that should be in terms of vehicles and small companies), we were not able to achieve their regional expectation although we were able to achieve the number revised, which would not include vehicles.

In terms of fee, I think the main impact, the negative impact here was also coming from the vehicles as accounting for the level of service revenues coming from the vehicles; ratio was much, much lower, so this affected the overall results. In terms of the noninterest expenses, development we were above the target; we gave you a target of 4 to 8 at the beginning of the year, then 3.5 to 6.5 and we end up growing only 1.8.

Efficiency ratio was very close to the final levels that we originally expected, we did not achieve the full number basically because of revenue, but chances they are pretty much under control.

For next year, we believe that we'll have a growth. We based these projections in a 3.2% growth in our GDP, so we expect more or less this level of growth and credit portfolio will grow around the level of 14 under the circumstances. We believe that provisions for loan losses will reduce. We have here a number of R$19 to R$ 22 billion and we are very comfortable with those numbers given the very recent trends that we have seen in loan losses and delinquency. As services fees and insurance we intend to grow in a more fact trends for the year and we keep our stronghold on expenses, we believe that we will be able again to grow below inflation levels, so we are very comfortable with those three numbers.

I have to mention that we also plan to improve the risk-adjusted ratio and we believe that the margins will grow slow one digit low levels and depending on how market develops and pressures the margins and Selic rate and the growth of the economy this might be affected. So, I'd say, basically, that there are more uncertainties around lean growth and more certainty about the guidance that we are giving you in this chart here.

Having said that, I open up for questions. Thank you.

with Q&A Session

Operator: "Ladies and gentlemen, we will now begin the Question and Answer session. If you have a question, please press the star (*) key, followed by the one (1) key on your touch-tone phone now. If at any time you would like to remove yourself from the questioning queue, press star 2.

Our first question comes from Mr. Carlos Macedo, with Goldman Sachs.

Mr. Macedo: Good morning Roberto, good morning gentlemen. Congratulations on the strong results on the strong trends. A couple of questions; the first, if you could give us some color on the loan growth expectations you set up for 2013, particularly in between the lines for what specific areas you expect more growth for, of course.

You had weak growth on the auto line and stronger growth on the mortgage line; are those trends expected to continue to 2013 for specific line and how does that affect your mix and your margins as a result?

The second question is with respect to expenses; the guidance you give a 4 to 6%, I was wondering how conservative you are, because just looking at some of the trends, for instance, in personnel, average number employees will be down, the several expenses that you had in 2012, you know, presumably will be down as well (those were almost doubled in 2012 related to 2011), could there be a positive surprise in expenses with expenses growing or being flat year-over-year? Is that a possibility or are you conservatively guiding 4 to 6? Thanks.

Mr. Setubal: In terms of expenses, the numbers that we are guiding you are the numbers that we believe we have clear plans for achieving them and we are very confident that we can achieve. Having said that, I have to tell you that we are still working in order to reduce expenses – although I cannot give you any guidance today, because I don't have clear plans to implement new things – but if we are able to find out new things (and I believe that we can do a lot of hard working for that because we have to prepare the bank not only for the next year but also for 2015 and 2016, so we are still working on new things that we have to improve productivity) so it is possible that we achieve this number in the lower band clearly, maybe a little bit below, it may be possible, although we do not have any plans for that – I have to say.

On the other hand, we don't know exactly how will be the inflation, how will be the exchange rate, how will be the readjustment of salaries, the official readjustments. Just to give you an example, last year was 2% above inflation, so if this is something that happens again this year, this will have a negative impact as well.

The other question was about mix; we believe that on the second quarter of the year we will have vehicles portfolios and small-company portfolio back to growth, so we still have some hangs of this reduction in risk appetite. For the year, we believe that the lower-margin products will outgrow higher-margin products; I'm talking about *consignado* I'm talking about mortgages, I'm talking about big companies, big corporations, so those portfolios in my view will outgrow other portfolios that have large margins.

Mr. Macedo: Okay, thank you Roberto.

Operator: Our next question comes from Mr. Mario Pierry, with Deutsche Bank.

Mr. Pierry: Hi, thank you for taking my questions. Let me ask you two questions Roberto. One is; we have seen significant improvements or reduction in headcounts at the bank over the last, roughly, 12 months. We saw headcount fall by 7%. I was wondering if you could give us any guidance in terms of should we expect this trend to continue, should we see an acceleration in headcount reductions? If you could just give us some more color specific to headcounts.

And then, second question is related to Redecard, or your acquiring business. We saw significant pickup in volumes this quarter, so I was just wondering if you could remind us of your strategy for Redecard; what are you expecting for volume growth, MDRs? That would be great, thank you.

Mr. Setubal: In terms of headcount, we don't have a goal to achieve in terms of reduction. We believe that we have more opportunities in terms of gaining productivity in other things, not necessarily in people reduction, and we do not have a specific goal on that.

In terms of Redecard, we had a good quarter, good development, I have to tell you that although we recovered some of the market share that we had lost in previous quarters for the year, this was a result much more of things and decisions that were taken even before the full acquisition of the bank, so I would not really bring this improvement to the fact that we are already fully owning Redecard, those decisions were taken before that. We have a new CEO there, we have plans for Redecard, we are very excited with the opportunities of integrating it more with the bank’s synergies in terms of what we have in terms of opportunities with small companies, this is an important relation with small clients.

We believe that Redecard is an important part of this strategy because it creates the opportunity to expand credit in a very solid way (so this is important), we also believe that (in addition) on the other side, in terms of payments opportunities, Redecard is an important asset, it gives us a lot of possibilities, it gives us a lot of power to negotiate with Visa and Mastercard and other brands that are in the road, so we are stronger today to negotiate with those guys.

So, I think we are very happy about the acquisition, the way things are developing and the kinds of gains that we can (by integrating it with the bank) have.

Mr. Cierry: Okay, that's very good. Just if you could go back into your answer, you know, specifically looking for headcount reduction or if you don't have target but you looking to improve productivity. Can you just give us some examples or what type of plans you have in place?

I think, you know, it has been long mentioned in Brazil that the banks could eventually share ATMs and things like that. Could you just give us an update on how can you achieve a productivity improvements?

Mr. Setubal: We do not have and we are not announcing specific things, but I can tell you that at the point that we are, we do not have one single silver bullet. It is a lot of small things, everybody at the bank is working very hard in all the areas of the bank improving productivity, everybody has this in their own goals (individual goals), so it's a lot of things that are more relevant, some others are not so much relevant, but there is no single important thing; we are integrating the office, changing processes and a lot of small things.

Mr. Pierry: Okay, great. Thank you very much.

Operator: our next question comes from Mr. Daniel Abut, Citi.

Mr. Abut: I have a couple of questions. One, on the capital situation (now that you explained that action of intervention of Redecard and the new level of capital that that implies) you did say in your disclosure that if you apply the general new Basel 3 rules, even when you understand that will the deferred tax assets, you should still be above 10%, but what I wonder is; within that above 10% what would be your situation vis-à-vis core capital? Because it appears to me that, maybe, on the core capital, basically, it will be too tight depending on you growth plan. And eventually it will be the same as to where this a sustainable situation or, sooner or later, you may need capital?

And, depending on the answer to that question, then I wanted to ask you about the sustainability of your ROE now that you reached this low 19 level in the fourth quarter. But it seems to me that, from now on (particularly given the expected decline in provisions that you are guiding) your earnings generation should start to improve. How do you feel about your ROE going forward? But again, that's tied to whether you feel your current capital situation is sustainable or not.

Mr. Setubal: Hello Daniel, thank you for your questions. I think we were not clear, I'm sorry for that. The level that we are talking about is the core capital; we are, in terms of core capital, above 10%. I think it was not clear when I mentioned that number. So, this is really something very comfortable.

In terms of ROE, clearly, the fact that we have reduced the equity this has an impact in the ROE. Just to give you the idea, the ROE of last quarter would have been 17.7% instead of 19.4, so this is a clear improvement. But, coming to the PNL itself, I'd say that margins will be a very important driver of how much ROE can… how much final net income we can get will be much more depending on the margins, the net income… that net interest income development. I think there is some uncertainty there, but you will have to see how the year develops.

Mr. Abut: Okay, thank you Roberto.

Operator: Our next question comes from Mr. Guilherme Muller, with Credit Suisse.

Mr. Muller: Hi, hello everyone, I'm Marcelo Telles from Credit Suisse. I have two questions. The first one regarding your extraordinary provisions for loan losses, I was wondering if you could tell us what was the amount of the loan portfolio that was reclassified with a different risk ratings and how much of that portfolio is actually related to the restructured portfolio?

And my second question is a more broad question; we saw a big guidance on provisions for 2013 (which kind of makes sense considering the improvement you clearly have been showing), but on the other hand, I mean, it seems that a very good chunk of that improvement is being offset by an expectation of NII decline because if we play with your guidance and we try to derive what sort of earnings you would be expecting, and also NII evolution, it looks like you will be expecting the NII to go down 5%, more or less 5%, in 2013, but then you have a decline of maybe 13% in provisions, which would lean to a low single-digit increase in NII after provisions, right, but the net effect of that is that your earnings growth would still be around high single-digit.

So, do you think this trend can revert like, you know, taking about 2014 if think you can resume growth in your NII from that point or you think that 2014 would still see a relatively slow resumption of NII growth after provisions? Thank you.

Mr. Setubal: Okay, first, starting with the last question, I recognize that we have some uncertainties in the margins development – we have been sharing this very clearly with you. I would say that we do expect it to be slightly positive in general, although we see risks of going down (depending on market conditions, the growth of economy, demands of loans), but also we can have a positive impact coming from less pressure in the market, so there are some uncertainties and this we will have to see over the year. We believe that our decision is about pre-provisions now, okay?

Part of the provisions will reduce, and we expect that net interest income will be very close to our low level positive number in terms of overall growth for the year, but there is some uncertainty there. I totally agree that it can be slightly positive… it can be more positive or slightly, very slightly, maybe negative, but we are probably on the positive side.

In terms of provisions on the nonrecurring numbers, again, the provisions that we classified as nonrecurring were nonspecific provisions for any specific clients, it was much more review of models that showed for many clients – basically retail, mostly small companies – we would be more precise in terms of expected loss given the current situation of the loan portfolio, we have more provisions there okay?

Mr. Telles: Thank you Roberto. Just one follow up on that question; do you expect more of this type of provisions going forward or this is as much as we are going to see in terms of this extraordinary provisions? Thank you.

Mr. Setubal: We do not expect any new revision in models, I think we have a lot of models this year (as we all know here), we have made a few mistakes, but now I think that things are pretty much in good shape and we do not expect any review in terms of provisions.

Just taking the opportunity to mention that on page 3, although we have stated there (I'm coming back basically to the question of Daniel Abut about the total capital ratio above 10%)… it is wrong there; we are really talking about core capital above 10%.

I'm really sorry to have this mistake here in our presentation. We will correct it on the site.

Mr. Telles: Thanks Roberto.

Operator: Our next question comes from Mr. Jorge Kuri, from Morgan Stanley.

Mr. Kuri: Hi, good morning everyone. Thanks for the opportunity. I have two questions. The first one is on margins, I just wanted to clarify; you said net interest income growth of low single digits? I mean, I know it is not an official guidance, it is not here on the last page of your presentation, but you are providing a little bit of color, so I just wanted to make sure I understood.

So, what are your expectations for net interest income growth for 2013?

Mr. Setubal: We are not really giving you a guidance, we are basically recognizing that there are some uncertainty there. Numbers could be slightly positive, slightly negative, maybe more positive, but, I mean, this is basically… this is clearly because we did not give a clear guidance. There is no… we have said that there are some uncertainties there, okay? Maybe this is what we can really provide you Jorge.

Mr. Kuri: Okay, thanks. So, just to understand; the uncertainties on margins, I mean, you have a long portfolio guidance, so I am assuming you know where you're going to grow, you have a provision guidance, which I am assuming then you know what the mix of the business is going to be, and you have a Selic forecast, which is (I think) flat for the year. You understand the duration of your loan book and those will expire, and the front book back with issue, you know what the duration of your assets are and liabilities, so, I just wanted to understand where the uncertainties…what part of the margins story is the one that you don't know today that drives you not to have a specific guidance, because it seems to me that, you know, all of the pieces you know.

I guess I just wanted to know which part you don't…

Mr. Setubal: I don't know two things: one is the volume; we have some uncertainties about the volumes, some uncertainties about the growth of the economy, and this is an important uncertainty. The other comes from some uncertainty about pressures on margins in the market, okay? If we assume that they will reduce, we are more on the positive side okay? If we assume that there will be more pressure on margins we might be on the negative side. But, basically, this is what we have.

That is a narrow difference, in my view, what could happen.

Mr. Kuri: All right, thanks. The second question is just also a clarification. Your guidance of provisions of R$ 19 billion to R$ 22 billion: that assumes that your coverage ratio remains stable throughout the year? And I ask this because we did see a big depletion of your coverage ratio in 2011 and 2012 from almost 180 to down to 150, so you can do R$ 19 or R$ 22 billion in provisions without taking out of the coverage? Is that the thinking or it includes, maybe, taking the coverage ratio down to 120, 130?

Mr. Setubal: No, our guidance assumes that we will keep the same policy that we have today for making the provisions and we would say that the trend of delinquency – positive as it is – will lead to an increase in the coverage ratio because we will have lower level of delinquency assets with the same policy of provisions. So, I would assume that – I don't have the numbers here, but – my math would imply an improvement in the coverage ratio.

Mr. Kuri: Okay, thank you very much.

Operator: Our next question comes from Mr. Jorg Friedemann, with Merrill Lynch.

Mr. Friedemann: Thank you for the opportunity. First on the expectations that you have for 2013 – I know that in the nonrecurring event screen that you have in the presentation that you realized the remaining of the tax benefits on the increasing social contribution rate – and I was just wondering where do you expect the effective tax rate to go over 2013? Thank you.

Mr. Calderón: Could you please repeat the question Jorg?

Mr. Friedemann: Sure. Just that you realized the positive tax benefits on the increasing the social contribution rate over, you know, the fourth quarter? And I'd just like to understand how you expect the effective tax rate to evolve during 2013?

Mr. David: Hi Jorg, this is Caio. How are you?

Mr. Friedemann: Hi, I'm okay.

Mr. David: So, that's pretty much… our effective rate would be around 32 to 34%. If you consider that we have the benefits coming from payments of dividends. That's pretty much what we are considering right now in terms of, you know, forecasts for 2013.

Mr. Friedemann: Okay, I asked that because this implies an increase of about 4 to 6% compared to what you posted in 2012. Is it correct?

Mr. David: Yes, something like this, especially because we consider that the social contribution benefits all in 2012, as you know, as a nonrecurring event. So, that's why we believe that we are going to increase a little bit the effective tax rate in 2013 based on that.

Mr. Setubal: We talk about full 6%, Jorg, because we have companies that are already 34, okay? Just remember that, so we don't have a clear number here to give you, but remember that Redecard, for instance, is 4% and will stay 4% with no difference. So, we have things and other situations that won't change, so the full effect will not be the 6%.

Mr. Friedemann: Sure, perfect Roberto. And taking the opportunity to ask a more broad question; I noted the relevance of other countries in Itaú's balance sheet continues to increase over time, so, just wondering how much you believe those other countries could contribute to the bank's total loans in the next couple of years and whether this could be an additional source of net income generation in your view?

You bought, for instance, HSBC retail operations in Chile (I think about 15 to 18 months ago) and HSBC continues to be vocal about potentially divesting from non-core region. So, would you consider opportunities in the Caribbean and in Mexico if those become available? Thank you.

Mr. Setubal: Well, I think that we have to, basically… I think your question is much more related to the local loans that we do in the local market (Argentina, Chile, Uruguay and Paraguay) and not necessarily loans that are booked out of Brazil, which we do with Brazilian clients, for instance.

Mr. Friedemann: Yes.

Mr. Setubal: Well, today, as you can see in our balance sheet, we have R$ 29 billion in that number, it has grown – I'm not sure how much this year adjusting for the exchange rate – but it has been growing much more than the local numbers. I think that those numbers would be close to 15% to 20%, and the local numbers we had 9%, so we had much higher level growth in those markets.

And I believe it will continue given the fact that those markets we did not have to adjust any kind of risk appetite, so we are stable in terms of growing and we have been growing and all those markets. And those economies, in general, are outgrowing Brazilian economy, so we expect them to outgrow the Brazilian portfolio by a larger amount although they still represent a small amount in our balance sheet.

I believe that any major change in terms of really becoming a meaningful aspect of our… would come only after major acquisition. The current numbers are still below 10% of our loan portfolio, so we should not expect a major, a meaningful impact in our balance sheet in the short term, and we do not have any plan today to do any major acquisition, I don't think there is any possibility of this currently, there is no important asset being offered or being negotiated in the market, so, for the time being, I don't think this will be a relevant thing.

But I have to say that we are in a position of interest of investing in all the Latin American countries.

Mr. Friedemann: Perfect, thank you Roberto.

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

Mr. Martinez: Hi guys, good afternoon. My question is really just a follow-on on a lot of the earlier questions, but it's a more broad question, I suppose, about risk appetite. Roberto, you mentioned that you believed that SMEs and auto loan should start to grow in the second half. You've also mentioned a lot of uncertainty in your expectations for net interest income, and you've clearly been any risk off mode for a while and, you know, perhaps that's the right strategy; it's been good for asset quality, it's been bad for, obviously, your net interest income evolution, but what needs to happen either in the macro environment for you to start to grow your higher margin products at a more elevated rate?

Do you need to see better macroeconomic growth conditions? Do you still feel uncomfortable with the leverage levels of consumers? What is it that would cause you to start to take more risk on type of mindset since obviously that is really a big part of what would get net interest income growing again?

Mr. Setubal: I don't think that… I believe that the opportunity in that segment is not the same as it was 10 years ago. Ten years ago Brazil was basically starting to develop the consumer credit market and we had very high level of growth during this period. Clients have increased the level of indebtedness of them. So, I think that today the opportunity in this market is pretty much reduced in terms of growth. It will stay growing, but much more slowly than it used to do in the past. So we don't foresee this as a major opportunity for growth for us.

We believe that opportunities will be larger for growth in other markets like mortgages, payroll loans and things like that with lower level of margins, although much much lower level of delinquencies.

Mr. Martinez: Do you see SMEs as a growth opportunity anymore?

Mr. Setubal: I see SMEs as a growth opportunity; yes I do, although I think that margins in that segment also will be much more controlled. I think we will have to use much more collateralized tax of loans like Redecard loans for instance. We can use collaterals of Redecard for loans for small companies. So, I think that that segment we have probably more opportunities than the consumer segment, but we have to adjust to the risk profile.

Mr. Martinez: Okay, great. Thank you very much.

Operator: Our next question comes from Mr. Maclovio Pina, from Morningstar Equity Research.

Mr. Pina: Hi, good morning and thank you for taking my call, and also thank you for slide 10; I think it's pretty useful. Also, following up a little bit on the net interest margin questions before, I'm just curious if you can give us a little bit of color in what you've seen in development of client names for loans so far this year? Can you give us a little bit of taste of have they been better or worse than the average 4Q12?

Mr. Setubal: Look, the trend is the same. We probably will lose some margins in terms of… we will gain volume when compared to the chart you just mentioned. We are still going to gain more volumes, I mean, if you do this at the end of next year, the same chart I would say that you will see growth in volume, some laws because of spread mix, we won't have Redecard, I believe Selic will stay pretty much stable and there is some uncertainty around the last thing which would be the margins, okay?

If we assume is stable margins of what we are doing today – what we are underwriting today – then probably we will have a positive evolution of the net interest income.

Mr. Pina: Okay, but essentially the trend remains, as in 4Q. Great, thank you very much.

Operator: Our next question comes from Mr. Marcelo Henriques, with BTG Pactual.

Mr. Henriques: Hi there. Thank you for taking my questions. I have two questions. One is just to clarify the backgrounds for the credit growth this year, which the guidance is between 11% and 14%. Some of your competitors are saying (the private ones) that they do kind of foresee that the public banks will decelerate their aggressiveness during 2013. I'm just wondering if – and sorry if I missed that during the presentation – you consider that as part of your consumption for, you know, credit growth for 2013?

Mr. Setubal: Well, last year we grew 9%, so we are accelerating our growth to a higher level, and this level will depend on the growth of economy and the situation all around the market. But we will have growth, definitely.

Mr. Henriques: Okay, because I was just wondering how this would play out, I mean, looking at how the economy is going when you are still on a ramp-up phase and the fact that the new credit being originated in the system depends too much on public banks – I don't know, like, 70% - so, from a top-down perspective seems hard (at least when the economy is on ramp-up phase that will slow down) and the fact that even if the economy improves why would they stop anyway, because, you know, it's just a bare economic environment, so you wouldn't have a purpose to stop.

And from the bottom-up perspective for the public banks, I mean, since they decreased very much the interest spread and tariffs, if they do not compensate in volumes if they do not compensate in volumes the ROE will really suffer even more. So, I was just wondering that, at least, if this could compromise your ability to reaccelerate growth in 2013 and to a certain extent that you would not choose to take more risks again as you've been in a more risk of mode recently.

Mr. Setubal: Yes, we, I mean, we won't change our risk appetite, we are very confident that it will pay off, at the end of the day it will bring the right returns for the capital that we are using to make the loans. I believe that this year (2013) we will see a much smaller difference between public and private banks.

Mr. Henriques: Okay, and also on the credit growth – just for me to understand – and actually related to the provisions, and of course there has been an improvement in Q4, although if you consider the credit sale that you did in the write-off, I mean, despite the improvement, maybe it's not as significant as it appears in the numbers, but it did improve and you are being pretty bullish on 2013 guidance from loan loss provisions, but I'm just wondering if this decline in loan loss provisions is just more related to the fact that you were in the risk off mode in the past , let's say, 18 months or if you really see an improvement in credit quality out there? And if that's so (and again), I wonder why you cannot grow more if the public banks are less aggressive, I mean, if the environment is better and if they didn't do, let's say, they didn't take too much risk, why shouldn't you increase your credit growth even more this year?

And, especially on the individual side, I mean, the scenario I'm not sure if it has changed this match in 2013, I mean, people are still employed and they are still making increases, and the fact that they are leveraged, despite the fact it's low or high, but they are still leveraged at least above historical average, so, I'm trying to understand if this decrease in loan loss provision is a rebound from the fact that you have been basically not lending, or you see actually a restructure improvement in asset quality in the system in Brazil and that's why you see that?

Mr. Setubal: Well, first of all we are talking about our numbers; I'm not talking about Brazil's numbers or the system's numbers. We are talking about our numbers. Talking about our numbers, we are very confident that – and we have shown all the numbers here – we can look for many sides and all of them lead to one conclusion; the improvement in the asset quality is very clear, I don't think there is any question. I'm not sure about the numbers in the system because I don't know what the banks have in their assets, but public numbers don't show the same kind of improvement that we have seen here in Itaú, and basically the reason is because we have been much more careful than last quarter. I think this is a result of our policy, something very clear.

So, I think that at this point in time, I think that we are very confident that quality of assets is improving.

I can explain to you why our volume will not grow maybe as much as you would expect; basically for one single reason: If you divide our current portfolio in two types of clients, assume that one type of client is the client that is according to my current risk appetite, and the other one is the remaining book of clients type of loans that I would not renovate anymore as long as we have the loan fully paid, so I have, still today, a portion of assets, of loans that we (under the current level of risk appetite) would not have booked, so I have to finish that level, when we take into account basically the lap of loans that I have in my book today that has the risk appetite that I'm talking about (the one I have been booking) and we see the growth that we are expecting for the future, this growth is above 15%. Did I make myself clear?

Mr. Henriques: Yes, it's very clear. I can of course follow up with you guys off-line, but I think that the question, the main question I have for 2013 improvement in your numbers – which I know that is your numbers – is that maybe it is more related to the fact that you've been on a risk off mode and then you have seen improvement in your asset quality, but once you start growing again (and if that is the case), and if the credit quality of the system has not changed so you basically have a choice to take margins risks again (so I'm basically talking much about 2014, maybe end of 2013) because the environment of the system has not changed dramatically, so that's why it was trying to relate in loan loss provision and the ability for you to actually grow more on a structured basis, not meaning only 2013, but I don't want to demand the call and I can follow up on that.

Mr. Setubal: Yes, just to comment, Rogério can bring you more details on that, but, again, we have numbers from the recent vintages that we have been booking; the last six months are much much better in terms of delinquency, much much better than the ones that we were booking before. So, all signs that we have in any angle that you can see shows the same kind of trend and conclusions.

Mr. Henriques: Okay, thank you, thank you very much.

Mr. Setubal: Thank you.

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

Mr. Nishio: Hi, thank you for taking my question. My question relates to delinquency and competition. Delinquency in Brazil – as nicely depicted in your institutional presentation – is much higher than other countries, right, and all banks should be moving to lower risk…lower return products to decrease risk in their balance sheet. My first question relates to this changing mix; is it only the mix that will decrease the risk profile? Is there any other initiative you were trying to implement – not only you, but the industry – to decrease the risk profile, but not only that, probably to try to improve profitability of the next vintages?

And my second question is related to that; since all banks are moving towards the same products – basically payrolls and mortgage loans – it is already impacting prices. How can we avoid the same mistakes that happened in 2010 when all banks were trying to get into SMEs and other segments, right? Is there any risk you see in the short term in margins for those segments? Thank you.

Mr. Setubal: Okay, starting with your last question, currently I don't see any risk of any problems in the things that we are booking. By the way, as I mentioned before, the vintage that we have been seen recently are the best in, probably, more than four or five years, so we don't see any major problem coming from that side.

How can we assure you that we can keep this for a longer time in terms of system? I think it's a matter of discipline. I think banks when they hold their hands it's a good lesson, we go back home, we do our homework, and we go back in a more disciplined way. I think that in 2010 the boom of the economy, the boom of the market made the banks a little bit flexible. So, now we are much more back to the basics and doing things that are the right thing to do for banking.

What was the other question, Eduardo?

Mr. Nishio: It's related to the mix; is there any other way to improve profitability or to decrease risk aside from changing mix?

Mr. Setubal: Yes, I think that the right question here is risk assessments; I think as long as we have the right risk assessment and we are able to price the risk, we can make a lot of money out of very low risk assets or high risk assets. As long as you price correctly and assess correctly the risks. So, there is not really…I don't think that the idea that high risk assets are more profitable than lower risk assets, I don't think that this is true; it's a matter of really understanding exactly the kind of risk that you're talking about and how to price it.

Mr. Nishio: Okay, thank you.

Operator: Excuse me, our next question comes from Mr. Emyet Mehta, with Pimco.

Mr. Mehta: Hi, sorry, I might be remaking a question asked earlier, but can you just give us some color on the net interest margin? What scenarios are you assuming for your kind of guidance (which I understand to be kind of flat to slightly up pre-provision)? And also then, what dynamics concern you that could obviously derail that?

Mr. Setubal: Look, basically we are assuming that we will have the same risk appetite throughout the year, which is what we plan to do, and there is some uncertainty given the fact that volumes might slow a little bit, and also what would be the kind of pressure coming from the market that we might have. So, this brings me some uncertainty in terms of what would be the net interest income.

Mr. Mehta: And just going back to the point made by some other analysts in terms of every bank kind of moving into the same segments; does that make you, maybe, a bit more sanguine about certain high risk segments that they may be getting price better?

Mr. Setubal: Again, it's a matter of knowing what you're doing; it's a matter of doing the right risk assessment for the assets you were underwriting. Again, we are tracking this very closely and we are very comfortable with the level of delinquency that we are booking our balance sheet today.

Mr. Mehta: Okay, and sorry, can I just follow up one last question? Can you just give me an update on your payout ratio in light to the slower long growth and where your capital position is? I mean, your payout ratio has been around 25 to 30%, and what would you expect going forward from here?

Mr. Setubal: Usually the way we calculate this has to be to recurrent and how you had a gross or net dividends. We have basically floating our payout ratio between 30 and 35% of the net dividend to the recurrent net income, and we do not plan to change that.

Mr. Mehta: So despite the slow rate to growth, you don't think you have capacity to raise your payout ratio?

Mr. Setubal: We believe that we will be able to use the capital in profitable way.

Mr. Mehta: Thank you very much.

Operator: Excuse me, our next question comes from Mr. Victor Galliano, with HSBC.

Mr. Galliano: Hi, my main questions have been asked, but just a couple of follow-ups here. Just a clarification on the guidance you've given for provisions for loan losses; this, I assume, is gross provisions, so before recoveries? Am I right to thinking that?

Mr. David: Yes, you are right; it's gross.

Mr. Galliano: Okay, okay. And also, one other thing on the Capex you were talking about, you know, IT the R$ 10.3 billion over the next three years, is this all going to be capitalized? Is any of this going to be expensed through the PNL? And is that affected into your noninterest expense guidance of 4 to 6%?

Mr. David: It is Capex; long-term investments Capex.

Mr. Galliano: Okay, so none of it is going to be expense?

Mr. David: No.

Mr. Galliano: Okay, thank you.

Operator: Our next question comes from Ms. Natalia Corfield, with Deutsche Bank.

Ms. Corfield: Good morning all. Thank you for the question. It's about your JV with BMG; if you could give us some more color on how it's evolving. You had an initial guidance of R$ 12 billion at the end of the first two years and I would like to know if that is still current.

And also how you would expect your payroll lending portfolio to grow in 2013? Thank you.

Mr. Setubal: The partnership is going very well, we are already piloting contracts, and now in January we have been booking and formalizing all all the agreements with all the payrolls that BMG used to have. We are also formalizing all the agreements of the part-in of the agents, so things are pretty much in line. We have the full operation in the second quarter of this year. Probably in March already we will be almost fully operational and probably fully operational in the second quarter.

Volumes today that we are originating in BMG, which would be basically the distribution forces for the new enterprise, are above the level that we expected when we announced the deal.

Ms. Corfield: Okay, and then are you expecting the JV to be profitable in 2013 or is the JV going to have a loss?

Mr. Setubal: Probably a small loss or pretty much close to breakeven, not meaningful at all.

Ms. Corfield: Okay, thank you.

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

Mr. Setubal: Okay, thank you for all of you that are still there along with us here. It was a pleasure to be with you and try to clarify some of your doubts and I would like to finish saying that we believe that we have a strong year this year, although a still challenging environment. Thank you all and see you next time.

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