



**INTERNACIONAL CONFERENCE CALL
ITAÚ UNIBANCO HOLDING S.A.
First Quarter 2012 Results
April 25, 2012**

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 first quarter of 2012. Queries related to Redecard's Public Offering shall be addressed to the Investor Relations division of Itaú Unibanco Holding.

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.itaunibanco.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 **Mr. Alfredo Egydio Setubal**, Executive Vice President and Investor Relations Officer; **Mr. Sérgio Ribeiro da Costa Werlang**, Executive Vice President of Risk Control and Finance; **Mr. Caio Ibrahim David**, Chief Financial Officer; **Mr. Rogério Calderón**, Corporate Controller & Head of Investor Relations; **Mr. Marco Antunes**, Accounting Director, and **Mr. Gustavo Henrique Penha Tavares**, Itaú BBA Director.

First, Mr. Alfredo Setubal will comment on the first quarter 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. Sir you may now begin.

Mr. Alfredo Setubal (Itaú Unibanco): Hello, good morning for those here in the US, in America, good afternoon for those who are in Europe.

We are going to start our conference call on page 2, the highlights for the quarter. The first one is the recurring net income, R\$ 3.5 billion, with an average ROE annualized of 20%. The second one is our loan portfolio growth. The total portfolio exceeded R\$ 400 billion at the end of the quarter with a



0.9% growth when we compare to the end of 2011 and 16.1% when we compared to March last year. Additionally, to that number we have private securities in a total amount of R\$ 17.1 billion. So our total risk considering these securities in terms of credit is R\$ 417.6 billion. We are going to go more deep in the credit in the coming slides. The third highlight is the financial margin with clients. The growth was 3.2% in the quarter, reaching R\$ 12.4 billion and a growth of 14.6% when we compare to the first quarter 2011. The net interest margin with our clients increased 20 basis points in this first quarter. The credit spread increased 50 basis points in the quarter reaching 13.5% while the risk-adjusted credit spread (net spread) presented a 60 basis points decrease in the first quarter of 2012 and we are going to show this trend in the coming slide also.

The fourth highlight is the banking services fees and result from insurance business. The banking fees and all these revenues from insurance, pension plans and capitalization, the growth was 14.1% in this quarter, achieving R\$ 5.8 billion. It was a decrease of 2.6% when we compare to the last quarter of 2011, especially related to credit and seasonality. The fees is the non-performing loans ratio and loan losses. Expense for allowance for loan and lease losses, net of recovery of credit, the total was R\$ 4.8 billion in this quarter. The expense for allowance for loan and lease losses increased 10.6% when we compare to the last quarter of 2011 and reached R\$ 6.0 billion. The 90-day NPL ratio reached 5.1% in the first quarter of 2012, a 20 basis points increase when we compare to the 4.9% at the end of last year, in line with what we said. We were expecting an increase in this first quarter and it continues to show this increase. The six is non-interest expenses, that was decreased 4.6% compared to last quarter of 2011 and an increase of just 6.1% when we compare to March 2011. These all together, the revenues and the expenses, we achieved in this quarter 44.5% in the efficiency ratio, a decrease of 250 basis points compared to previous quarter and 290 basis points when compare to the same period of 2011. During this past 12 months the efficiency ratio achieved 46.6% and we continue to target 41% for 2013. Subsequent events, this week we received the approval of the Central Bank of Brazil about the acquisition of 49% of Banco Carrefour that was pending since last year and also we announced that we sold our stake in BPI in Portugal to the La Caixa Group.

Going to the next slide on page 4 our results, a recurring net income of R\$ 3.544 billion. The highlights here I would comment the financial margin with our clients, an increase of 3.2% in the quarter and an increase of 14.6% in 12 months. Also another highlight here is related to the results from insurance, pension plans and capital operations. It had achieved R\$ 1.461 billion, an increase of 4.9% in the quarter and 19.3% in the last 12 months. All these good performance in terms of revenues was affected by an increase of the expenses for allowance for loan losses. The total as I mentioned achieved R\$ 6.0 billion in the quarter, an increase of 10.6% in the quarter and 37.7% when we compare to the first quarter of 2011 and other expenses that we continue to focus a lot in controlling and reducing expenses. The growth was a



reduction in the quarter when we compare to the last quarter of 2011 of 4.6% and an increase of 6.1% in 12 months that is a little bit ahead of inflation.

I will jump the pages 5 and 6 that we already said, it is more graphical pages, and we can go to page 7 on the financial margin that increased from 13% to 13.5% with the gross credit spread and net credit spread reduced from 8% to 7.4% and 7.4% to 6.8% when we adjust NIM with clients. It shows a decrease as I mentioned in the first part of the presentation.

The total assets achieved R\$ 896.8 billion; the stockholders' equity R\$ 72.5 billion by the end of the quarter; the loan portfolio as I said R\$ 400.5 billion and the total funding with clients - here including the mutual funds - R\$ 926.1 billion.

On page 9, we can see loans by type of client and product, a breakdown of our loan portfolio. As I mentioned, the total including endorsements and sureties achieves R\$ 400.5 billion by the end of the quarter split R\$ 147.6 billion in individuals and R\$ 231.2 billion with companies. In the case of individuals we can see a seasonal reduction in credit cards portfolios because of a huge use usually in December in the last quarter because of Christmas and New Year's Eve. We can see a growth on personal loans of 6.5% in the quarter and almost 40% when we compare the 12 months; Vehicles a reduction of 1.7% - here it is not only a seasonal reduction, it is more strategic and a lower demand also for car financing in the whole industry and we reduced the portfolio and 1.7% in the quarter and also almost flat also when we compare 12 months. What continues to be with a good demand is mortgage, an increase of 8.5% in the quarter, 57.3% in 12 months. The total with individuals is 14.5% and we have to add almost R\$ 7.0 billion related to companies that is inside the companies' numbers. So the total related to real estate is almost R\$ 22 billion what is a little bit more than 5% of our portfolio. Going to the Companies' business, corporate continues to have a better demand, 1.8% growth in the quarter, and we continue to be very selective when we are talking about small, very small and middle market companies. The portfolio were almost flat, a decrease of 0.1% and a 9.0% growth in the last 12 months.

On page 10, we can see in more detail about our ratios are related to credit. 90-day NPL ratio increased from 4.9% to 5.1%. We can see the same trend in this graphic in the total financial system in Brazil using the numbers released by the central bank. We can see that the total of the industry increased from 5.5% to 5.8%, so we are in the same trend. This was pushed more with individuals, an increase to 6.7% and companies an increase from 3.5% to 3.7% what makes this average of 5.1%. What we can see on the graphic on the right side of this 90-day NPL ratio is the 15 to 90 days. It is the first delinquency, the first sign that we can have delinquency. We can see that in the case of individuals the jump in this ratio was from 6.9% to 7.8%, what is potentially a bad sign for the trend in terms of NPLs over 90 days and in terms



of companies these numbers were almost flat and we have a total of the R\$ 26 billion in provisions for loan losses.

On slide 11 we can see the credit coverage ratios. The coverage continues to be good although it has been reducing in the last 1.5 years and finished in 148%. If we do not consider the E to G companies rating this number is 132% with a small decrease of 1%.

On page 12, we are putting here some perspectives that we see in terms of credit. The first one is loan loss provision expenses. We showed, as we said and you know, R\$ 6 billion in the first quarter, and we expected the expenses in the second quarter go in a range from R\$ 6.0 billion to 6.4 billion and in the third quarter R\$ 6.5 billion to R\$ 7.1 billion. This is related to these early delinquencies numbers that I talked to you two slides before, that is increasing the numbers the first time, and also to this environment, economic environment of low growth that Brazil is expecting these quarters that we expected, that the reason that we expected these numbers for expenses in the coming quarters.

The most impacted of course are vehicles and personal loans, the two lines of credit that we expected to continue to have more impact in terms of creation of these expenses. We continue to stimulate our campaign of responsible use of credit. We have been more selective in terms of clients and we are getting more collateral especially in the small companies. We increased the collateral for these segments and we had problems and you will remember in the beginning of last year but this segment in our view is totally under control in terms of expenses and in terms of credit quality. Our problems are more related to the vehicles and personal loans, especially the vehicles that we are market leaders with more than 30% of market share and in this environment really we are facing problems especially with the credits that were originated in the second semester of 2010.

On page 13, we can see the total funds including here working capital and funds and deposits, mutual funds and we have a total of R\$ 1.2 trillion.

On page 14, the ratio between loan portfolio and funding continues to be very good and we do not see deposits as an issue to continue to grow the credit. Banking fees we can see here that the reduction in the quarter was more related to low operations and credit cards. The other services and fees tariffs was in good shape and these two is more related to seasonal issues.

On page 16, we can see the non-interest expenses, and efficiency ratio. We continue to focus a lot in these numbers. We expected to continue to reduce and to achieve, as I mentioned, the 41% efficiency ratio by the end of next year.

In terms of division of the recurring results among the five business lines that we usually show we can see this in the first quarter that we had a small



reduction in our commercial bank more related to the delinquency; an increase in participation in the recurrent net income of Itaú BBA that jumped from 19% to 21%; our insurance was almost flat, a reduction in 1%; and stable in terms of the consumer credit and our treasury operations and remuneration of the excess of capital, an increase from 21% to 23%. The numbers were not much different from the last quarter but some difference especially related to delinquency.

The BIS ratio of 16.1%, on page 18, also is not an issue in terms of funding the growth of credit and the growth of the bank in the coming years.

Market capitalization by the end of the quarter were R\$ 158 billion and a liquidity, total liquidity considering New York Stock Exchange and Bovespa of R\$ 743 billion.

To finalize, on page 20, the operation that we made selling our stake on BPI. We had 18.87% of the capital of the bank and we sold that to La Caixa Group that has a good presence in Spain and also will increase and control the bank, this bank in Portugal. We sold the stake for € 93 million and this will impact our stockholders' equity in R\$ 100 million and a negative non-recurring effect of approximately R\$ 200 million in the second quarter.

That is what we wanted to talk to you in this presentation and now we are open for the questions.

Q&A Session

Mr. Carlos Macedo (Goldman Sachs): Good morning gentlemen, thank you for the opportunity to ask questions. I have two questions, first one is referring to your guidance for provision expenses. This is a significant increase from what we saw last year and again an increase on what you reported in the first quarter and it seems to go against a little bit what others peers are saying and the data that has been come out from the Central Bank including today, where there seems to be an improvement in asset quality already in March. Is there anything that you are seeing in your portfolio, is there anything that has originated that was that might be different from what the market is seeing that should lead you to make these significantly higher provisions in the upcoming quarters? And is this something - if it is, should we expect the level of provisioning going forward to remain high or should we get a normalization maybe towards the end of the year, beginning of next year? And the second question is related to expenses. The headcount for the bank continues to go down as a further deploy your efficiency program. However in the first quarter we did see personnel expenses go up quarterly in a quarter that we typically see personnel expenses going down; was there anything in the quarter that lead these expenses to go up or are there any expenses related to labor



expenses or something like that, and is there a level that should be more recovering going forward? Thank you.

Mr. Rogério Calderón (Itaú Unibanco): Good morning, everyone, Rogério Calderón speaking. Hi Carlos. Your first question is regarding our guidance on expenses but those expenses in a comparison with the others peers. What we are guiding is the impact of our portfolio. I think it is important to highlight what makes the difference when comparing to others' portfolios is the fact that we have a different mix of risk and we have a much higher presence of vehicles in our portfolio, and vehicles is the one, is the type of credit that is presenting the worst performance in terms of delinquency. I think this is mainly probably what is leading this difference. In terms of the shape of the curve of delinquency if you compare our delinquency with the system it is pretty much in line. In some cases of course we have different timings. Sometimes we are pioneers in one product or not and then the consequence of this behavior sometimes is different in the line of time. But the trend is not different except for the different proportions of the credit portfolio, different risk-taking. Regarding expenses, I think the only figure that we have that is abnormal, non-recurring in the first part of the year is that we had some additional level of layoffs amounting to around R\$ 60 million or R\$ 70 million in the quarter.

Mr. Carlos Macedo (Goldman Sachs): Ok, so we should looking at the number maybe the recurring number will be R\$ 60 million or R\$ 70 million lower?

Mr. Rogério Calderón (Itaú Unibanco): That is right.

Mr. Carlos Macedo (Goldman Sachs): Ok. Now going back to the first question, so this vehicle, this auto loan, the mix, is it something that you are resolving? When should we expect to see your provision expenses normalized? I mean I have to assume that you are addressing those issues and in the future they will normalize and to what level should we expect them to normalize may be looking as a percentage of average loans? If you do increase the provision expenses at the levels that you have guided you will be roughly operating at 7% of average loans being your provision expense and that is about as high as it has been with the exception of during the 2008 crisis when the lot of the provision expenses were made preemptively for the corporate book. Is there a level that we should be, that you believe this will normalize to maybe next year?

Mr. Rogério Calderón (Itaú Unibanco): We believe that the level is going to normalize towards the end of the year and you are right when you say that of course, we took some measures of controlling this increase in delinquency and as I mentioned in the first question, Carlos, the main issue is in our auto loans portfolio, and when we look deeply in the auto loans portfolio we figure out that we are still seeing the consequences of the origination than during the end of 2010 and mainly during 2010. You remember that we had some macro



prudential measures by that time, interest rates went up. The quality originated by that time was not good. We tightened up by April, May and as from that time we start to build up a different portfolio, lower risk and what we see now is the first payment default, for instance, much better than before: we have now 50% of the first payment default that we are presenting or we were presenting a year ago; but it is a long duration portfolio and so it takes some time to reach the turning point that we believe is going to be reached by the third quarter. This is the main factor why we are postponing this consequence of delinquency increase.

Mr. Carlos Macedo (Goldman Sachs): Ok. So just in terms of the provision expenses as a percentage of average loans 7% or higher, given the provision expenses that you are expecting for the next two quarters. Historically it has been around 5% should we expect it to go back to 5%, obviously respecting the difference in mix or are we at a higher pace line permanently given that conditions for auto loans in Brazil have declined?

Mr. Rogério Calderón (Itaú Unibanco): It should decline, but it is not going to be back to the same level represented in 2011. If I am not wrong it was 6.2% or something And we do not expect to reach the same level in 2012 definitely and 2013 onwards yes, it goes down. I cannot say anything on the quantitative right now.

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

Mr. Rogério Calderón (Itaú Unibanco): Thank you.

Mr. Daniel Abut (Citi): Hi Alfredo, Rogério, two questions for me, one a follow-up to the prior one and then one on your performance on the financial with the clients, financial margin with clients. On the asset quality the follow up: if you are announcing or suggesting that this NPL cycle will not peak up in the third quarter it will have lasted overall about 21 months or so because it started early last year and so if it does not peak in September or October it is close to two years, 20 months, 21 months or so, which is much longer than normal. In the past these cycles in Brazil have tended to be much shorter partly because of the duration of your average portfolio is short; what made it different - other than your client concentration on the market in auto loans - what made this cycle so much longer than normal given that the unemployment rate has remained very low in Brazil? And it seems to have surprised you because in the past you have guided for a shorter cycle, I think if I go back to a few conference calls ago initially you were expecting it to end towards the end of last year; then you prolonged that to the first half and now we are saying in the third quarter. So it seems to me in your models you were surprised by this lasting much longer. What is underpinning this cycle that will likely last, go to two years, 21 months or so? And on the financial margin, which clearly was a very good performance in the quarter, Rogério, as you explained it grew year on year close to 15%, only a touch below the loan growth that we saw year on year for the quarter. Do you think that is



sustainable through the rest of the year or at some point we are going to see more margin pressure affecting this topline income performance given not only the ongoing decline in interest rates but the recent launching of programs at lower rates following the lead of the public central banks?

Mr. Rogério Calderón (Itaú Unibanco): Ok Daniel. In terms of asset quality I think no; definitely what made the difference between what we were forecasting and the actual figures is the fact that every time we make an estimation, you know, this is linked to a scenario and the scenario that we have in time by the time that we announced our estimates actually was not confirmed, and we are talking particularly on the speed of the GDP growth. Nobody, we were not expecting - and I assume nobody was expecting - the level of GDP growth or the speed of level of GDP growth by the third quarter last year and very modest growths in fourth quarter and the beginning of the year as well. So because of that actually we made our new calculations in our models and we concluded that this increase in delinquency is going to continue up to third quarter. At the time we know that we have that information we decided that would be for the benefit of you to make it clear for you as soon as possible. Regarding spreads we believe that if you take the year as a whole as we had the beginning of last year at a higher level probably we are going to pose a slight decrease year on year but it is really a slight decrease, so we are not really forecasting any stronger compression and margins for the year.

Mr. Daniel Abut (Citi): Just to clarify, Rogério, sometimes when you mention margins in your presentation you talk about the absolute amount of reais you make in your business with clients and sometimes the percentage; when you are saying that you expect a small contraction are you talking about the percentage?

Mr. Rogério Calderón (Itaú Unibanco): I am talking on the net interest margin, the percentage, yes.

Mr. Daniel Abut (Citi): Ok, ok because the amount of reais you make in this line actually increased only 15% year on year and you are not calling for decline of that line. There is still going to be growth.

Mr. Rogério Calderón (Itaú Unibanco): Could you repeat please? The sound was very low.

Mr. Daniel Abut (Citi): I just want to make sure you do not confuse people because sometimes when you use the word margin in your presentations you are referring to the absolute amount of reais that you are making in this intermediation with clients, which shows a 14.6% increase year on year.

Mr. Rogério Calderón (Itaú Unibanco): That is right, that is right now. The net interest income increases, the net interest margin presents a slight compression. Is this clear?



Mr. Daniel Abut (Citi): That is clear now. Thank you Rogério.

Mr. Rogério Calderón (Itaú Unibanco): Thank you.

Mr. Jorge Kuri (Morgan Stanley): Hi good morning everyone. I have a couple of questions, the first one is on your margin. I am not sure I understand the expectation for a slight or modest, very modest as you mentioned, Rogério, decrease in net interest margins. If I look at the composition of your margins your rate-sensitive margin actually fell a lot on a quarterly basis and given that the Selic rate continued to come down and your balance sheet is asset-sensitive to negative repricing will continue throughout the year as you saw in first quarter and where your margins did better was on the spread-sensitive part. Now if I just follow the other things you are saying, which is your NPLs will continue to go up; you are going to change your mix towards less-risky products if I look at your new pricing given that the government clamp down on spreads it just does not seem to me that you are going to be able to produce an increase in the spread sensitive part of the margin. So can you be a bit more specific exactly why you think you are going to have just a slight decrease when we are seeing this underlying trend play out?

Mr. Rogério Calderón (Itaú Unibanco): Let me try to do it Jorge, we are saying that the expected growth for our credit portfolio is between 14% and 17% and we are saying that the net interest income is going to grow somehow lower than this - what means there is a slight compression not too much lower than this; a slight compression Net interest margin. That is what I said. This is all before bad debt. In terms of bad debt I think better than saying anything what we did was to present the figures. Our expectation for the bad debt expenses in the second quarter and in the third quarter was just shown to you. So I think if you get all together you are going to realize that there is no such important reduction in our net interest margin. And if you want me to summarize why this is because of the mix of our portfolio. We are now replacing the vintages originated in 2010, except for those with longer duration like vehicles that I said before regarding delinquency, we are replacing the portfolio originated in 2010 by a portfolio that was originated, built up during 2011 at a marginal higher level of margins. That is what causes the margin to be resilient or just posting a slight decrease.

Mr. Jorge Kuri (Morgan Stanley): So just may be the best way for us to understand exactly what you mean is what this a slight decrease mean to you? I mean are we talking about 10 basis points, 50 basis points? What do you think relative to the margin of 2011 the 2012 margin is going to have?

Mr. Rogério Calderón (Itaú Unibanco): The credit portfolio is going to grow between 14% and 17% and we are forecasting the net interest income to grow low two-digit.



Mr. Jorge Kuri (Morgan Stanley): I am sorry: in terms of net interest margin is that a 10 basis point contraction, is that a 50 basis points, 100 basis points?

Mr. Rogério Calderón (Itaú Unibanco): We did not announce any guidance on this. If you take the calculation of the efficiency ratio, Jorge, it implies around 12%, 13% growth in net interest income what reflects in the net interest margin - I do not have to figure here - but I think you can make the easy calculation on this. So the credit growth is going to be 14% to 17%, net interest income somehow 12%, 13%.

Mr. Jorge Kuri (Morgan Stanley): All right thank you. The second question is on returns on equity. In the Portuguese conference call you mentioned that you expect return on equity to be 22% to 23% in 2012. And look, I was not at the conference call, I just had up from someone else and I just wanted to make sure that was correct - is that right? You said 22% to 23% for 2012?

Mr. Rogério Calderón (Itaú Unibanco): No I did not. What I said is when the question was about the sustainable level of our ROE, I said that we believe that under the current scenario, the current way of doing business in Brazil, our sustainable return on equity is around 22%, 23% and that we probably will not post this year because of this increase in delinquency. I said actually the other way around - but I said it is a sustainable level for some years while the cost of capital is at the current level. Of course when the cost of capital brings down to a different level probably we will be able to keep the same value creation but not being able to post the current level of return on equities. So just to make it clear I did not say that it is sustainable... it is possible to deliver 22%, 23% this year.

Mr. Jorge Kuri (Morgan Stanley): All right then what is your estimate for ROE this year?

Mr. Rogério Calderón (Itaú Unibanco): We do not announce any guidance on ROE Jorge.

Mr. Jorge Kuri (Morgan Stanley): All right thanks.

Mr. Rogério Calderón (Itaú Unibanco): Thank you.

Mr. Saul Martinez (J.P.Morgan): Hi good morning guys. I have two questions as well on asset quality/loan growth and Rogério I hope this question does not come across, is too confrontational; but your guidance has been... continuously pushed back when we will see the peak of the NPL cycle and I think your investors have gone somewhat frustrated by that sort of continual pushing back to the first quarter. What gives us, why should they be confident that this time around it is going to be different? That in the third quarter is really when we see the peak? Are not you relying too much on an expectation that the economy is going to really re-accelerate and belly out on this? And my second question is related to this in the sense that your loan growth target



is 14% to 17% and given how you have started the year that implies pretty substantial reacceleration close to 5% sort of sequential growth, which you have not reached really since 2010, especially the second half of 2010 which got you into the problems in the first place. So my question is this type of mid-teen loan growth especially given the issues you are facing in an important part of your loan book and recognizing that you are more conservative than your peers, is that the right strategy in this environment?

Mr. Rogério Calderón (Itaú Unibanco): Well how confident we are in terms of guidance for the year I think it is fair to say that we are 100% confident on the measures we took; but there is an implied expectation for growth in our guidance - in any guidance anytime - and likely had last year was a frustration on the GDP growth for Brazil in the second half of the year and also the beginning of the year at a very low level. We are now forecasting a different scenario but this scenario yes, it takes into consideration some acceleration, important acceleration in the second half of the year. We are confident that this is going to happen. The level of inventories in Brazil are reducing what should trigger the industrial product to grow; demand is accelerating; we have the interest rates going down; we do not have an increased in unemployment levels. So the conditions are positive to believe this growth is going to come - but all the scenarios are related to... all the forecasts are related to scenario. 14% to 17% is a level that we believe is possible. We talked on discussing this level of growth during this first quarter we do not have reasons to believe this is not deliverable. But we are going to come back every quarter to talk on this. We have a pretty good opportunity to grow in some portfolios, some others are not going to post growth and you are right when you said that this implies an acceleration in the second half of the year and an important acceleration. This is also true and this is related to the Brazilian GDP that is expected to post 1% or close to 1% in the first half of the year and go in up to 4% or 5% during the second half of the year. So all together this should create an environment that is feasible for us to deliver what we guided. The guidance was always very conservative and a big range exactly because of this level of uncertainties; but we believe that it is possible. Also remember that in the second half of last year the growth was low, what makes easier the acceleration in our growth in the second half of the year while the first half is the other way around.

Mr. Saul Martinez (J.P.Morgan): Ok. What is your underlying economic assumptions that you are using currently if you can remind us in establishing your guidance? For GDP growth for example?

Mr. Rogério Calderón (Itaú Unibanco): I am just checking.

Mr. Saul Martinez (J.P.Morgan): Sure.

Mr. Rogério Calderón (Itaú Unibanco): In the first quarter is 1.5% and the whole year - I think I have the figures by quarter here...



Mr. Saul Martinez (J.P.Morgan): That will be even more helpful actually.

Mr. Rogério Calderón (Itaú Unibanco): I can give you in details if you want but I remember: what I have in mind is that we have 1.5% in the first quarter, similar to the first half of the year; and then in the second half of the year around 4% and 5%, in order to bring an annualized growth between 3%, 3.5%. That is the figures I have in mind and I can look into details and send our scenario. We use this scenario, our macro scenario that is posted by Ilan in our securities business.

Mr. Saul Martinez (J.P.Morgan): Ok just one final quick question on charge-offs. They are extremely elevated in the quarter; should we expect them to remain more or less at these levels in the coming quarters?

Mr. Rogério Calderón (Itaú Unibanco): The level of charge-off is increasing because the peak of delinquency over 90 about a year ago; it had these impacts of SMEs peaking in the second quarter and third quarter of last year. Of course you know, Saul, that there is a 270-days difference between the peaking over 90 and the peaking in the charge offs and as we had this peak a year ago we do not expect the same level to be maintained. It is going to go down in the coming quarters.

Mr. Saul Martinez (J.P.Morgan): Ok great, thank you very much.

Mr. Rogério Calderón (Itaú Unibanco): Thank you.

Mr. Mario Pierry (Deutsche Bank): Good morning everybody. Let me ask two questions also, specifically if you can give us more color on the deterioration that you are seeing in your vehicle portfolio. Can you give us any order of magnitude, how much NPLs have increased? Because it seems to me from hearing what you are saying that the bulk of the problem was vehicles. Are you actually seen any improvement in NPLs in other lines? Also staying on this topic of vehicles' NPLs increasing I was wondering why the banks followed the public sector banks and announced reduction of spreads for all the loans. This to me seems intuitive that you should be actually tighten your credit standards and not use your credit standards for vehicle loans. And then finally I have a question here with regards to your provision expenses. You are guiding for loan loss provisions prior to recoveries; if you are right in these economies start to improve in the second half of the year should receive meaningful improvement in recoveries? Thank you.

Mr. Rogério Calderón (Itaú Unibanco): Ok Mario, let me start from the end. Yes we are guiding that expenses and we expect some increase in the recovery. Meaningful I do not know what you mean by meaningful; but it is expected to grow between 5% to 10% every quarter. Ok. In terms of our auto loans I think what is important to highlight is that this is a longer duration portfolio. So it is right, it is true that we took decisions in the past; but it is also true that it takes some time to reflect in our NPLs the consequence of this



change in strategy. I think I made this comment before; but we had in 2010 the worst quality portfolio built up in auto loans and after that the quality was increasing. We made the selectivity more tight; we had some changes in the quality - meaningful changes I mean since then - and I still have the consequences of the 2010 portfolio. I think there is another indicator that is very important to remember that is the first payment default. This is actually right now in a much, much better level than what we had a year ago; but you still need to run off the portfolio originated in 2010. This is the main reason why the quality of origination was deteriorated by that time. And I think it is also important to highlight that the quality of our portfolio originated right now is at the same level of the best vintage we had in 2009.

Mr. Mario Pierry (Deutsche Bank): Ok so let me rephrase then the question: do you expect then to accelerate the origination of auto loans going forward from these levels on or... is that what we should read into this?

Mr. Rogério Calderón (Itaú Unibanco): In terms of balance we do not expect an acceleration of the growth. I just want to make sure it is well understood that it does not mean that we are not doing business in this auto loans area; we actually originated around R\$ 2 billion in new contracts every month - but this does not represent a growth because we are more selective and at the same time we have a very important base effect. So even if we have exactly the same strategy growing on such a big and matured portfolio it is a difficult task and now with a different perspective in terms of delinquency this is actually not possible. So we probably will see the same level of the portfolio by the end of the year or even lower.

Mr. Mario Pierry (Deutsche Bank): Ok and if you can give us an idea - I know you do not disclose your NPLs by product - but if we look at your auto loan NPL today compared to the crisis in 2008/2009 are you higher than those levels or can you give us an idea if we are seeing an acceleration in NPLs? From what you are saying it seems like NPL formation in auto loans should actually be improving?

Mr. Rogério Calderón (Itaú Unibanco): It is higher than a year ago, it is higher than two years ago. If you take the 2009 level that was the best level we had it is 150 basis points higher. If you take by 2011 then we are talking on around 60 basis points higher.

Mr. Mario Pierry (Deutsche Bank): Ok thank you.

Mr. Marcelo Telles (Credit Suisse): Hello good morning gentlemen. I have two questions, the first one off course regarding asset quality if you look at the provisioning guidance that you provided for second quarter and third quarter basically what you are implying is that provisions for the first nine months of the year will probably be up about 28% to 29% and if I look to earnings in consensus numbers for you guys, which is at around like R\$ 16 billion, it looks like we could be talking about the potential for like 12% to 15% earnings



downside which basically places your earnings numbers for the year at about R\$ 14 billion. Does that calculation make sense and do you think that in 2013 you can actually have a sort of reversal of that provisioning trend? And the other question in the same subject I saw that you only provided guidance up to the third quarter for provisions and I must say I do acknowledge, I think it was very good of you guys to provide the more color on the provisioning front. But what was the reason for you not to provide the guidance for the fourth quarter given that you think that your delinquency is going to peak in the third quarter? Is that you probably do not have enough visibility to expect an improvement in provisions in the fourth quarter of the year? Then I had my other question.

Mr. Rogério Calderón (Itaú Unibanco): Ok so we do not think the R\$ 14 billion figure you mention is right, is ok. We expect earnings growth we expect single-digit earnings growth for the year, what brings to an upper-level. R\$ 14.6 billion was our results for last year; so R\$ 14 billion would imply a reduction, what is by far, is not what we are expecting - by far not. The other question you made is why - if I correctly understood - is why we are not presenting a guidance for the fourth quarter in bad debt expense and the reason is it is actually positive: we are going to do it in the next quarter. This is a figure that is pretty much accurate, the one we released, and this is based on our current portfolio of credit. So we have the impacts of the rolling of our portfolio. And in the fourth quarter is a little bit different because it would represent some origination that is done right now. So I think we are going to be in a more adequate, in a more precise condition to make any forecasts within a quarter regarding of the fourth quarter. But we believe the peak is going to happen in the third quarter, yes.

Mr. Marcelo Telles (Credit Suisse): Thank you Rogério and just one final question: regarding your NIR growth guidance that you mention like low double digit growth in NIR I remember when you provided guidance I believe that the interest rate implied in the yield curve was probably about 10%, 10.5% if I am not mistaken and currently the yield curve...

Mr. Rogério Calderón (Itaú Unibanco): It was actually 9%, Marcelo.

Mr. Marcelo Telles (Credit Suisse): It is now at 8.5%.

Mr. Rogério Calderón (Itaú Unibanco): Yes that is right.

Mr. Marcelo Telles (Credit Suisse): Yes and so ok, at least you have, let us say, another 0.5 percentage point decline in the NIM; so are you accounting for that in the number? And given that we saw on central bank data today we saw spreads coming down month-a-month; of course there could be some seasonality there but do you think, how confident are you that you are going to actually meet that NIR growth? Because you guys are very confident on asset quality and the deterioration being higher than expected, so are you



confident that you are not going to have to revise this downwards? Your expectation for NIR growth for this year?

Mr. Rogério Calderón (Itaú Unibanco): At the current scenario including this 8.5% you know that we have an impact, a direct impact of Selic reduction of 50 basis points impacting around R\$ 70 billion in our net assets position. So this is included in our guidance just mentioned.

Mr. Marcelo Telles (Credit Suisse): Ok thanks very much.

Mr. Rogério Calderón (Itaú Unibanco): Thank you.

Mr. Marcelo Henriques (BTG Pactual): Hi guys. Just a couple of questions actually on the cycle of the assets quality deterioration. I am swirling a little bit so if you could help me please. If you get the credit that was originated after 2011 according to your numbers it is roughly 70% of the total and if I understood correctly you have been saying that you are more cautiously lending since the second quarter and you keep saying about the 2010 origination portfolio which is roughly only now 18% of the total. So how can this continue creating so much trouble for you in the coming quarters or does that mean that maybe you are not as cautious as you should be in 2011 and even at the beginning of this year, 2012? I am trying to understand how much long this cycle can continue and if you have like 70% of your book already originated in 2011, so in 2012 you can keep pushing forward the delinquency ratios up?

Mr. Rogério Calderón (Itaú Unibanco): Ok just to make sure it is clear that most of the delinquency increase that we are observing right now is auto loans originated in 2010, watch is also out of the 70% you mention. But the 70% you mentioned we modeled with an implied expectation that it was actually worse than the one modeled and this selectivity that we applied before was able to keep the same level to offset this increase in deterioration, but not enough to improve out of the prior position.

Mr. Marcelo Henriques (BTG Pactual): So if I understood you correctly this 18% 2010, although it is small compared to the other of course it can create this amount of trouble in the next coming quarters still?

Mr. Rogério Calderón (Itaú Unibanco): This is in the guidance we gave. This is the running off of this portfolio is included in the figures we presented on this growth in bad debt expenses.

Mr. Marcelo Henriques (BTG Pactual): Ok. And the second question is on the confidence of the economy, economic recovery in the second half and you keep saying that this would be crucial for the asset quality begins to improve in the fourth quarter. Also I am swirling a little bit: how this... help me understand how this could help especially in terms of the individual's portfolio because clearly the environment for new business in Brazil has been - maybe



I am wrong - has been terrific actually. We have seen unemployment rates all-time low; real wages have been increasing quite substantially.

So how the economic recovery could help the individuals' side of your portfolio even more if we already have a very good scenario for consumer behavior? How this... is there any kind of other indicators that you are seeing more like income commitment coming down already in the fourth quarter or help me understand a little bit how the economic recovery could improve the assets quality on the individual's portfolio.

Mr. Rogério Calderón (Itaú Unibanco): I think it is important to highlight that we took measures. We became more selective and we took all the measures in terms of improving our portfolio. Other than this the growth of the economy of course helps, both helps because it irrigates the portfolio but also because it creates a better environment for building up a better portfolio, what makes in association with the decisions we took before brings a higher quality in our portfolio. The more growth we have the faster is this replacement in our portfolio. That is what I tried to explain.

Mr. Marcelo Henriques (BTG Pactual): Ok. The final question, I promise is like a similar question I asked on the Portuguese. You have been running especially this quarter very low ROE to a bank like Itaú's standards. Even looking historically probably this is not the lowest one but is very close to the lowest level ever and prior of the ROE recovery is a kind of linked to the economy recovering in the second half. And I know it is a cycle so you depend on the macroeconomic environment; but if does not come what you can do? How can you still be able to deliver or if it does not come as much as you are expecting and actually the economists are expecting what you could do besides what you are already doing on the cost side? Maybe you could do something more; but what you could do to really improve, and what you are willing to do to really improve the ROE of the bank going forward? Kind of not regardless of the macroeconomic condition because of course it is a fact; but let say a little bit less dependent on this huge economic recovery that is supposed to happen in the second half?

Mr. Rogério Calderón (Itaú Unibanco): The way we look at our interest income statement formation, Marcelo, is the credit growth is expected to be between 14%, 17%. We expect a slight deterioration in our margin what brings the net interest income to grow around 12%, 13% that I mentioned before. If you add... and this has to do a lot with that type of growth that we are going to see in the second half of the year as you just mentioned. The other lines that account for our result and our return are fee income, insurance results and also our ability to control our costs and to improve our efficiency. Those three are the ones that we could present better results in cases we need to catch up in any case.

Mr. Marcelo Henriques (BTG Pactual): Ok thank you.



Operator: Excuse me. Our next question comes from Mr. Victor Galliano from HSBC.

Mr. Victor Galliano (HSBC): Hi thanks. Most of my questions have been answered, but just on, if I can stay unfortunately with the issue of credit charge and provisions. What we saw last year was I think the provisions were about 4.9%, just under 5% of average loans. So for this full year would it be reasonable to assume you would be looking for something like 6% provision of average loans and then we could expect it to come down from there as a percentage of average loans into 2013.

Mr. Rogério Calderón (Itaú Unibanco): Victor just one point: I think you are referring to the bad debt expenses that of recovery right?

Mr. Victor Galliano (HSBC): Net of recoveries absolutely.

Mr. Rogério Calderón (Itaú Unibanco): Your figures are ok. It is the same way we look at them.

Mr. Victor Galliano (HSBC): Ok so 6% is a reasonable one for this full year.

Mr. Rogério Calderón (Itaú Unibanco): That is right.

Mr. Victor Galliano (HSBC): Would you having mentioned earlier the recovery should be picking up by about 5% to 10% going forward.

Mr. Rogério Calderón (Itaú Unibanco): Going forward quarter on quarter. That is right.

Mr. Victor Galliano (HSBC): Yes, yes. So just looking at the division of businesses obviously what you see there I think this kind wheels back to the overall ROE of the bank. It is clear that the problem is with auto loans and other personal credits and probably not with people who are core clients of the bank since the ROE of the commercial bank remains pretty resilient that the problem is with the consumer division. Do you see an opportunity here going forward and may be with Basel III coming in for you to reallocate capital into better return businesses and thereby helping your ROE over the medium run?

Mr. Rogério Calderón (Itaú Unibanco): This is what we do all the time, Victor, allocating capital here or there depending on the best opportunities and return opportunities we have. It is exactly the way we do.

Mr. Victor Galliano (HSBC): But looking in reference right now in particular to the consumer division given that is not going to be a growth area anytime soon and that houses most of the auto portfolio and some other personal credits do you think there is more scope here on, shall we say, not just cyclical or quarterly basis but on a secular basis to reallocate capital?



Mr. Rogério Calderón (Itaú Unibanco): Yes but also remember that we have all these initiatives in terms of the use, the conscious use of credits and we pay attention and we want to avoid over indebtedness in the consumer area. So we have some room to reallocate capital here or there, yes, but we also have some other limitations to do so.

Mr. Victor Galliano (HSBC): Regulatory, yes, sure.

Mr. Rogério Calderón (Itaú Unibanco): Thank you.

Mr. Victor Galliano (HSBC): Ok thanks.

Mr. Boris Molina (Santander): Yes thank you very much for taking my question. Just one final question: you have... talked of excess non-performing loan provisions. Do you plan to meet your target of single-digit earnings growing in the year releasing some of these provisions in the fourth quarter or is this something that you do not have any intention of doing so?

Mr. Rogério Calderón (Itaú Unibanco): Our provisions are built up and I use it based on the expected loss criteria. They move based on the expectation improving or not. We do not take decision on releasing provisions or not; this is actually the result of our criteria. We do not have any plan to do anything other than respecting the criteria.

Mr. Boris Molina (Santander): So do you have any clarity for the layer of coverage of 90-days past due loans you might be achieving towards the end of the year - lower than current levels?

Mr. Rogério Calderón (Itaú Unibanco): You are referring to the coverage over 90 days right?

Mr. Boris Molina (Santander): Yes.

Mr. Rogério Calderón (Itaú Unibanco): Ok so it is possible that it goes up or down based on the expected loss criteria; but I just highlight that the provision on H-G (what means all the over 90 days except for those fully provided) is exactly at the same level that we presented a quarter ago. E-G I am sorry. So it is really very important that you understand that the coverage is actually flat, stable. We do not need to keep any extra coverage on what is fully provided.

Mr. Boris Molina (Santander): Sure ok, thank you.

Mr. Alexandre Thumlert (UBS): Hi and thank you for the opportunity. Two quick questions: in terms of the auto loan just going back to what you discussed earlier it seems to us that Brazil is running at almost full employment and I just wonder if you could elaborate a little bit more why you see such a huge pickup on non-performing loans on the vehicles financing.



And the second question that I had is given the successful, apparent successful deal of one of your competitors on the IBD business I was wondering whether or not you consider actually spinning off your IB business with Itaú BBA and actually listing the operation given that probably... for sure the value of that business is not being reflected on your valuation today.

Mr. Rogério Calderón (Itaú Unibanco): We are not going to answer the second question. The first question we have the consequence of some vintages that were originated in a negative scenario. Those vintages particularly in auto loans are presenting this increase in delinquency. I do not have anything else to talk on this. This is the reason why we are presenting this increase in delinquencies. And also we had some increase in delinquency comparing to the models in some other areas like personal loans but at a much lower level. Auto loans, particularly auto loans originated in 2010 are those more impacted. The other question I think we are not going to address. I think what we should say is the very obvious fact that we pay attention to any strategic movements all the time.

Mr. Alexandre Thumlert (UBS): Thank you.

Mr. Alfredo Setubal (Itaú Unibanco): Ok thank you all for participating in our conference call, it was a good and long one and I think we could explain and clarify all the issues. But if you still have some you can contact our team and IR and they will be able to give you more information. Thank you and goodbye.

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