Itaú Unibanco Holding
International Conference Call
Fourth Quarter 2014 Earnings Results

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Operator: Good morning ladies and gentlemen, welcome to Itaú Unibanco Holding conference call to discuss 4Q14 earnings results.

At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session and instructions will be given at that time. If you should require assistance during the call, please press the star followed by zero. As a reminder, this conference is being recorded and broadcast live on the investor relations website at www.itau.com.br/investor-relations. A slide presentation is also available on this site. The replay of this conference call will be available until February 10th by phone, on +55 11 3193-1012 or 2820-4012 – access code 2225864#.

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

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

First, **Mr. Roberto Setubal** will comment on fourth quarter 2014 earnings results. Afterwards, management will be available for a question and answer session.

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

Mr. Roberto Setubal: Good morning and good afternoon for all of you. It's my pleasure to be here with you to comment on our results for the fourth quarter and the year of 2014. On this presentation I will take the opportunity also to comment on our business model and the implications of the current macroeconomic situation of Brazil.

Let me start commenting on the fourth quarter results. I think it was a great quarter, closing a great year. We had a R$ 5.7 billion recurring profits and a recurring ROE of R$ 24.7. I think that the result was very good, but not only the result was good, but the quality of the results were very strong. Financial margins are increasing, provisions are declining, fees, services and insurance revenue increasing, every, all the revenues are developing and growing above the level of non-interest expenses, all of this together brings this level of results. It's important to note that even though we have this difficult macroeconomic situation in Brazil, our credit quality has been improving recently, and I will comment more on that during the presentation.

ROE has stabilized in a very high level during the 2014 year … during the second semester of 2014 and I think that is very, the results, the quality of the results makes me believe that we have a good moment for the Bank and a good sustainability for the results we are joint at this moment.

Comment on the, our PNL, on screen 4, I think that again here we have a, comment on the year, I think it was a very strong year, revenues in general grew 14.5% comparing to expenses growing to 10.4%. This was very positive for the results, obviously, and on the top of that our loan losses and claims declined during the year. This combination allowed our results to grow more than 30%. It is important to notice also that all the lines have been moving in the right direction, so, all the lines of margins with clients is growing, so recovering from two years ago very strongly, commission fees, services in general are growing, so this was very positive.

The quarter itself was pretty much, compared to the third quarter, which was very positive quarter, so we kept basically the same trend of the previous quarter, with good growth in margins and very much control on loan losses and expenses. So, all of this allowed us to have also a strong quarter for last year.

As non recurring events, on screen 5, we can see that we have a gain that we announced previously on the sale of our large risk insurance operation, and also we, looking on the current macroeconomic situation and what we envision for the future, we thought that it would be, sounded positive for the Bank to increase our provisions, our allowances for long losses, which we did during this quarter above the regulatory level in more than R$ 1.1 billion on provisions. And the net effect is here, as you can see, on page 5. Those were the main events, non-recurring events, for the quarter.

Let me talk a little bit about our business model, as we move to page 6. We are a bank, obviously, but we are a bank that has much more businesses than loan itself. Loan is part of our business, it is an important part, obviously, but we have a strong presence in services, financial services and insurance. And, as we show here in this screen 6, we have more net income coming from insurance and services than we have coming from credit itself. When we look the credit business, we can see here that our return on regulatory capital is getting to the level of 15% in 2014, compared to 12.4% in the previous year. So it was an important improvement, and basically this improvement was due to our current risk appetite policy that is pretty much aligned with return above cost of capital, which we believe that is at the level of 16% for the Bank.

Our insurance business has also been developing strongly and we have, looking on the right side of this page, a 16% growth in our revenues in our insurance and services business. Since this is outgrowing the expenses, we ended up having a 25% growth in our net income for that business. That business, as I mentioned, is bigger than our credit business, which had an important improvement in terms of quality, delivering a growth in terms of net income of 35%. This was due, mainly, to the improvement in the losses that we had in that business, so, the business is moving today into a very sound situation performing above cost of capital and with a very strong and good quality of assets. So this is the current situation that we have.

In our mind, at our business model, we target to have a return on the credit business of cost of capital at least, and the insurance and services that we cross sell for our clients, basically comes on the top of that, giving us a strong ROE and pretty much sustainable as we are able to deliver this cost of capital return on loans. Because the services business is a business that does not take too, that much capital, is much lower capital driven business, so we can deliver the final and a sustainable strong ROE at the end of the day. And this current level of return on credit is something that we believe is pretty much sustainable, and this is what we have been targeting since we changed our risk appetite two years ago, and we have been having our loan portfolio moving into this direction more recently.

So, on page 7, we can see this loan business here that we have in the Bank, a strong improvement, as I mentioned, with much better returns than we had last year and much better than the ones we had in 2012, where we were below 10% at that year, so the improvement is really very important to observe. This was the result.

One of the reasons for that, as we can see on page 8, was the change in our business, in our loan portfolio, with a much more safe and lower risk kind of portfolio. So we grew this last year a lot in payroll loans and mortgages, much stronger than areas that were more risky in our view, like vehicles where we have been declining. Also the small company portfolio have declined during the year, but since we have already cleaned that book, we started to grow in the last quarter, and we believe that in the year of 2015, we probably will have a small growth in that segment, even though we know that the current level of, the current macroeconomic situation is not one that is favorable for that business. But, even though, we believe that we can grow the book, although in a small speed, but we can grow that book under the current level of risk appetite.

On page 9 you can see the change of mix of portfolio, which was really very important coming from 2012.

On screen 10 we can check the margins, how our margin has improved and how it has been especially sustainable when we look the net credit spread, which is the growth margin, the growth spread after credit cost. So we have been having a stable spread, net spread, which has been very positive in terms of results.

Our financial margin with, our market revenue has come back to high levels and has been very stable in the last quarters.

The credit quality, as a result of that change in the risk appetite, still improving, as we can check in the page 12. In terms of consumers, our rate, our decline is very impressive year to year, and quarter to quarter we still keep on going in this trend. We believe that we might observe additional improvements in the consumer portfolio during the year of 2015, even though we have this challenge in the macroeconomic environment. And I can already mention to you that we are very positive on that trend, given the quality of the origination that we have today, the vintage that we are originating today are much better quality than they were in the past, they are very consistent and they have a lower level of risk than used to have. And not every, we don't have in the numbers of the NPL over 90 days does not reflect the current quality of origination that we are booking in the Bank. So we probably will see additional, although in a lower speed, but additional improvements in that quality, in the quality of the consumer portfolio. Companies in general are more stable situation today, as I mentioned to you, the small company portfolio has already been cleaned, so we have today a more stable credit quality at the levels that we are seeing today. So at the end, the total NPL might have some improvements, additional improvements in the year of 2015.

This is combined, as we can check below here in the page 12, with a bigger coverage that we have today. So we have been, we have increased the level of provisions in this last quarter, as I mentioned before, so today we are more comfortable, better covered in this scenario. Obviously, today what, the major concern is the corporate portfolio, but we believe that we have strong provisions for that scenario and even though we know clearly the problems that will result from the problems at Petrobras and Lava Jato case, but we believe that the level of provisions are very good, enough, more than enough for the moment, and we are facing a very confident target for next year. As you know, we have gave, we gave you a guidance for next year of R$ 13 to R$ 15 billion of net provisions. We believe that this number is pretty much achievable given everything that I have been describing to you at this moment. Both the improvements in the consumer portfolio, the level of provisions, the quality of the origination that we have today for both the small companies and, small companies, consumers and also the corporate. Corporate might have problems here and there, but overall our exposure to the Petrobras chain is a small one, we are very comfortable with all the provisions and the situation and the quality of credit that we have today.

Having said that, we move on to page 13. The level of provisions compared to our book has been stable primarily this last quarter, the level of allowance that we have in our balance sheet has grown, so as I mentioned, we are quite comfortable with the position that the Bank has today.

In the page 14 we can, in screen 14, we can check the short term delinquency, it's still improving, and consumers, we know that for the next quarter, probably, we will see some increase in the short term delinquency, as we have had in all the years before in this serie of years since 2009. This is a seasonality that we have in Brazil, so we expect this to improve a little bit, to increase a little bit, and, but we believe that overall trend over the year is a positive one, in terms of improvements. Small companies, as I mentioned, it floats a little bit more given, sometimes you have companies, specific cases that goes in delinquency, so it floats a little bit. But overall we believe that the level of delinquency will stay stable.

Okay, this is what I had for the loan business. Let me talk now about the insurance and services business that we have, which is an important part of our franchise. As I mentioned to you, the biggest part of our profit comes from that business and I'd like to share with you the way we see that business and how much, how strong is that business, which, by the way, and this is important to note, is a business that is not related to the economic cycle in terms of, is much more sustainable over time. It might grow more or less depending on GDP, but it's a sustainable business with growing net income over time. Returns here are very high, given the fact that we have the clients already in the Bank. A strong franchise, we attract a lot of clients.

We break down this column here, on page 16, showing you all the major service business that we have today, starting with the insurance business, than we have Rede, which is the old Redecard business, cash management, asset management, deposits, and asset management liability, asset liability management. We can see improvements in all these lines compared to the previous years, Rede particularly had a great year, great improvement since we acquired Rede two years ago we have been improving the quality of services, the efficiency, the expenses, which were stable, by the way, during this year, so we kept flat expenses and this resulted in a huge improvement in our recurrent results. Cash management is also an important business for us, it's also growing, asset management as well, deposits is an important part of our banking franchise, it's a strong source of revenue for our commercial bank, it's important not only from the perspective of a stable funding source but also in terms of revenue, which also helps to pay the high cost of the distribution on branches.

So, in page 17 we have all these revenues here split by this all lines, but I would like to move on to page 18 where we have our insurance business, which is improving. Gross revenues has grown 10.6%, but we have to be careful here given the fact that we are selling some of the business, but I can mention, we sold the big risk business, so we lost revenue in the last quarter. We are deactivating some business lines and concentrating in the more profitable business. It's a, the characteristic of our insurance business is very particular in many ways, especially when you look the level of claims that we have. It's a very low claim business, 27%, 28% claim level, it's very strong because it's a life business, basically, we have more here the short, the low risks levels of insurance, so it is quite sustainable, it's a business that is quite profitable, and the level of profitability has been growing above the level of revenues, specifically because we are restructuring the business, concentrating in more profitable business and more low risk kind of insurance business. And we believe that over time this will be the trend, high growth here in terms of profitability and profits together.

Rede had a good year, as we can see in the screen 19, the volume of transactions grew 11%, revenues grew 12%, so we had a good MDR, basically stable MDR compared to last year. Expenses were pretty much under control, although we had a great increase in our presence in clients and points of sales in general. So was a good evolvement, so the level of revenue coming from equipment had an important growth here. Also the financial revenues had a 16% almost increase, very strong increase, so, all together we were able to increase the growth here in net income by 27%. So, it was a very strong year, very good year, we are very happy about the acquisition, the improvement that we have made in this business and the perspective that we, looking ahead we have in that business.

All the services, in page 20, are very strong businesses for us, we look them as a long term business, we have a strong business in asset management, we manage R$ 669 billion out of our balance sheet, so, an important business for us, we like that business, and it give us a strong revenue of R$ 2.1 billion, so it's an important source of revenue for the Bank as a business. Funds from clients, they are basically deposits, we have R$ 447 billion of deposits which brings us margins given, it's a good business for our retail operation and also as a source of funding for the Bank itself. Consortium is also another important and fast growing business that we have, with revenues growing very rapidly, another business that we like, there is no risk associated with those businesses, so this is an important source of revenue and very stable and sustainable over time. Cash management, which accounts basically for current account, revenue, together with payment in general and receivables that we, services that we do for clients, is also a growing and important source of business and revenues for us. So, altogether the business of services and insurance is an important business and an important source of revenue, very stable, very sustainable over time. So this is part of the business model that we have to be, important part of business model.

On the other side of our balance sheet, of our PNL, we have expenses which we have been keeping under strict control. This year, as you can see on screen 21, we had a 7% growth, just a little bit above inflation in comparable basis, now including credit cards here. So the expenses are growing in a much lower speed than revenues in general, which is something that we keep to, we have in mind to keep this way for the years ahead. Efficiency ratio has been improving as a result of that, and particularly the efficiency ratio adjusted to risk also it's improving, reaching numbers, levels that we have never had in the past for the Bank.

We are very comfortable with the capital position of the Bank today, as you can see on page 22. We have already under the current rules of Basel III, fully applied today, so phasing-in right now, we'll have above 10%, almost 11% level of core equity tire I, so it's a very comfortable position, and we still have an improvement as we offset the taxes losses that we are carrying today in our balance sheet, and we optimize some investments, we might reach 12%. So the Bank today is in a very strong position of capital, we do not see any needs for capital in the future, for that, to Basel III.

In terms of guidance for 2014, I think we had a great year. In terms of loan portfolio we were not there, but we were very close, 10% was our low range guidance, we had 9.8%. Especially given the situation, the macroeconomic situation that deteriorated during the year, I think it was a good number to achieve. Our loan losses provisions were in the low end of our expectations. Revenues coming from services and insurances was in the high end of our guidance, expenses also in the lower end. Efficiency ratio was even above the best guess that we had at that moment.

For 2015, we expect a little bit lower growth in general, in terms of margins and services and loan portfolio, as we can observe on screen 24, compared to 2014. Growth on revenues will be lower, but still growing, outgrowing expenses and we believe that we can keep provisions pretty much under control, between R$ 13 and R$ 15 billion which, by the way, was the same range that we gave you for 2014. So we believe that provisions, even though the scenario is more difficult, even though we have perspectives of much lower growth this year than last year, even though we have Petrobras and Lava Jato and all the problems that will arise from that, even though all those things we expect to be in that range.

Thank you, and now we are open to answer questions.

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 Jorge Cury, Morgan Stanley.

Jorge Cury: Hi, good morning everyone. Thanks for the call. Two following questions, you are obviously very positive on the outlook for delinquency in 2015, I guess it would help to understand what sort of macro and industry backdrop are you basing those assumptions, meaning how much do you expect unemployment to go up and, are you expecting electricity rationing, what sort of GDP growth assumptions you have, and to what extent you are assuming or not that there is a bigger problem with oil & gas companies? So, just a little bit of that background, so we can understand at what point, you know, you would change that view, say, you think delinquency is going to be flat, because you're not thinking that unemployment is going to go up, than if we see unemployment going up, we can think about another scenario. So that would be my first question.

The second question is regarding credit cards. I think you've correctly pointed out that you've changed the structure of your loan book, moving out of car loans, and more into payroll loans, which, and mortgages, which do have lower risk. But we do see that the portion that is on credit cards has actually increased a lot, I think it is like 22% of your total loans, consumer loans, and effectively the biggest portion of your consumer loans. That number compares to 10% to 15% of your peers, so you are significantly more exposed to that. So, you know, thinking about a difficult year, thinking about a year with recession, a year in which unemployment may go up for the first time in a long time, which we are already seeing now, and knowing, by looking that, every single credit cycle in emerging markets and developed markets over the last, you know, 15 years, credit cards are normally the product that does the worst, in a scenario where unemployment goes up and is the first that people stop paying. So, I'm just curious to understand, you know, what is that gives you confidence that, even though you are by far the largest exposed to credit cards, and of that credit cards do the worst in a difficult unemployment macro scenario, what gives you comfort that it will not going to play out against you. And, obviously, we do understand that you have like around 40% to 50% market share of credit cards in Brazil, so they can not all be to A and B clients, you probably have a lot of exposure to lower tier clients. Those are my two questions, thank you.

Roberto Setubal: Thank you, Jorge, for the questions, I think they are very important points to clarify, I think these points are very important, especially given the macro scenario that everybody, including us, are seeing for Brazil this year of 2015. Starting with the scenario, I believe that, and we believe, and those numbers are based in a scenario that growth will be close to zero, maybe negative, maybe a very small portion of positive, but very, very low growth. We do not expect this year unemployment rate to go up more than 1%. It might go up, somehow we consider that might probably, end of the year, maybe 1% above the current level, but not more than that. I have to mention that, today we have a good portion of our consumer business is not related to people that, employed persons, we have a business also make loans to people that are self-employed, which is an important portion of the Brazilian macroeconomic situation, design, I mean, Brazil has a, we have 20 million people that are officially employed and more than 40 million people that are part of the population economically active. So, this is one portion of the problem. I think that, so we believe that there will be some additional unemployment, but what makes us to feel much more confident is the quality of the origination that we have today and the amount of data that we have today. Today we have access to the level of indebtedness of any client in Brazil trough the Central Bank data base. We have a lot of dat, given our presence in the market, about the clients, payments, costumes, level of income, so we have a lot of data to figure out the quality and the level of indebtedness of, and the level of income of all the clients. And the quality of the origination that we have today in our portfolio is a very good one, so this makes me feel very, very comfortable about the outlook for the level, the quality of delinquency.

It's clear that, as the economic, macroeconomic situation, if it deteriorates, probably we might have some deterioration also in delinquency, but we really do not see this having a major impact this year. We believe that, if we have any impact, might be down the road, because this year probably it won't have the time to have the effect in PNL, given the quality that we have today in our books, given the quality of the origination that we are doing, and given all the monitoring that we have been doing in our portfolio. So we have been, every month we look very carefully through all the leading indicators, the quality of the portfolio that we have been originating, and we have been correcting any kind of deviation that we see, so, for the time being, there's no sign at all of any problem, especially in the consumer portfolio.

And in the credit card portfolio, you are right, we have a strong presence in that market, we take a lot of, when I say monitoring, we monitor everything in that business, especially because we of the exposure there. Again, we have seen already in the last months some changes, some deterioration here and there, but were able to correct them almost online, okay? So, it has not been affecting the overall performance of that portfolio because they are minor things here and there, of regions of Brazil that are suffering a little bit more, some segments of clients, and we have been tightening in, so that we correct all those effects. So far, we don't see again any kind of deterioration there, and we have been keeping a very strong control on that portfolio. We have a portfolio, as you mentioned, that are in segments A and B, clearly, we have a huge concentration there, because the Bank is very strong in those markets, but, as you mentioned, we also have some exposure to C clients, although much smaller in terms of portfolio compared to what we have in A and B.

Did I answer all of your questions? I think so, if you have anything else, please ask me.

Jorge Cury: No, thanks Roberto for the detailed explanation, and congrats on 2014.

Roberto Setubal: Thank you.

Operator: Our next question comes from Phillip Flesch, UBS.

Phillip Flesch: Good afternoon, Mr. Setubal, thank you very much for the comprehensive presentation. I've got a couple of question, as well, please. First, it's to do with your capital position which clearly has improved dramatically and impressively in recent quarters. My question is, one is, going forward, given that your balance sheet growth is going to be pushing limited given the macro environment, and given your very high levels of ROE and retained earnings, this capital position is going to clearly hide quite dramatically going forward, so the question here, two for one is, what sort of optimal level of capital are you targeting, and secondly, with access trapped, how you are considering deploying that going forward in terms of, you know, paying more interests on capital, or this is part of some sort of to make acquisitions?

And secondly, my question is to do with your ROE, which again has impressed in terms of the improvements we see in the recent quarters. Again, what is the sustainable level here, are we at the optimal level? And again, working against you here, your capital position, you know, the equity is going large and large, and that's how this is putting pressure on that ROE? Thank you.

Roberto Setubal: Okay, starting with the capital position, I think that we recently we had all those changes in the regulatory capital requirements, so we have been having to accumulate more capital in order to comply with Basel III specifically. It's not totally clear all the requirements that might come ahead, I think we probably have gone 80% of the regulatory requirements, but there still some questions, some things opened that might made us need some additional regulatory capital looking from today. But, assuming that we achieve those levels, and we are comfortable, basically today we believe that being at the level of 11.5 or something like that in terms of core equity tier 1 for the current level of capital requirement, we believe that we would be in a good position.

So, assuming that we, at some point in time in the short future, we achieve that position, in which we are not there today, we, obviously, we at this level of ROE and distributing basically 1/3 of our profits, as we have been doing, we will be accumulating capital because growth will not be like 15%, at least this year and next year, so we will be generating more capital than probably we will need. I think that there will be two ways of using that we today would consider to do, to use the capital. One is future acquisitions, which we don't see today. I mean, they might happen, we don't see anything in Brazil and not anything in Latin America which are the areas that we could be looking for additional opportunities. We don't envision anything today in the US, or Europe, or Africa, or Asia, we don't see anything that we might be interested in, we are focusing basically in Latin America, so those are the markets that we would be seeing. I think that in Latin America in general assets are still expensive, compared to Brazil, I think that as the economic cycle takes place, I mean, with a fall of prices in commodities, I think all this will probably affect more positively, relatively Brazil to other markets in Latin America, making maybe things more attractive in the future. But for the time being we don't see anything to use the capital.

And the additional alternative, the alternative use for capital would be the acquisition of shares. I think that as we feel comfortable with the level of capital that the Bank has, as we have done in the past, and given the current level of prices of our shares, we believe that we might have an opportunity to acquire, buy-back shares to the Bank.

Phillip Flesch: Thank you very much.

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

Carlos Macedo: Hi, good afternoon Roberto, congratulations on the strong results on the fourth quarter. A couple of questions. Really, the first one, it's two questions in the same team, it's your guidance for margins. It's fairly robust, even though you did expend quite significantly in 2014 and the back, just trying to give set up the stage of it, you know, the average Selic in 2014 was up 260 basis point from the average Selic in 2013, we are looking at 2015 being a path of that, 130. We know from prior calls that you're exposed around R$ 600 million in your financial margin, 500 basis point, so, all the cycle that's what we expect, we know that there still has the re-price of the back book even though over 30% of your book is originated in the current quarter, so a part of that is already done, and we also know that there is a very significant shift in your loan mix. Also, on top of that, from what we could see here, the bigger impact of the change in financial margin in 2014 was in insurance and services, as opposed to credit. Could you give us some color on what is behind that guidance, what you see for Selic at the end of the year, what exactly will drive, you know, margins to essentially increase, you are near since you're guiding for a stronger growth in NII than you are guiding for loan growth. And then I'll follow up with another question.

Roberto Setubal: Yes, okay, the guidance for Selic, we are not having a different view from the market, something between 12.5 and maybe, on the top, maybe 13, but I'm more towards 12.5 and this was basically the number that we based the guidance. We are supposing a 12.5 Selic rate during this year.

In terms of margins, one of the reasons is the Selic, why the gross margin that we are guiding from, we are announcing the guidance for financial margin between 10% and 14%. One of the reasons for this that has been growing, outgrowing the loan portfolio is Selic rate, which has, on the average in 2015 compared to 2014, will be higher. Second portion is the fact that we have been declining delinquency this also adds to the margin, additional revenue compared to the level of assets. Also the fact that we are reducing growth, so when we take the average revenue that we have on loans compared to the previous year, given the deceleration of growth, this adds, this brings more revenue to, than loan growth. So, that is a lot of small things that you add up and at the end you come back to this level. Another thing which is important, is the fact that we are re-pricing the stock of loans in higher spreads. We are not expecting any growth in spreads compared to what we are, what we have today, we base our views in, our guidance, on the current level of spreads. But the current level that we are practicing today of spreads is a little bit higher, especially in some segments, than it was one, two years ago. So the pricing of the portfolio is a favorable one. That's why, all together, all this we have margins outgrowing the loan book.

Carlos Macedo: I'm sure that the mix affected that, that will work against that a bit, but also you probably had that in 2014, as well, right, over 2013. My question is, most of the increase in 2014 came from insurance and other services, is that something that we can expect to happen again in 2015?

Roberto Setubal: Well, insurance is not an important factor in the financial margin, I'm not sure if it's what you are talking about.

Carlos Macedo: It's just the breakdown that you provided us this quarter, with insurance went from 10 billion to 14 billion, so a 35% growth there.

Roberto Setubal: Let me check what you are referring to.

Carlos Macedo: Page 16 of the presentation, sorry. Is just, most of the increase came from there, I'm just wondering if we are going to see, you know, and the asset liability line is where the one came from 1.3 to 3.2, which was the biggest increase in that specific segment. I'm just wondering if we are going to see the similar thing in 2015.

Roberto Setubal: There are some things in 2015 in this also is part of this process that I described to you, of re-pricing and things. But this is also already taken into account in the financial margin, yes.

Carlos Macedo: Okay. Just a follow up question on that, over the last couple of quarters you are trading business, treasury business, as then, much better than in prior quarters, and we also saw a list under the new methodology that are using to calculate increase, should we expect both things to stay higher going forward, is that a new strategy for the Bank, or it's just something that happened as you were taking the opportunities in the last couple of quarters?

Roberto Setubal: Okay, if you are referring to page 11, in page 11 we have the financial margins. This have been stronger than last year, and is sustainable, but this is not really trading business. A good portion of this, ALM revenue is in here, okay, so, the portion of trading revenue coming in here is very small, is the smallest part here. So, what we have here really is much more ALM kind of revenue. So the trading, we do not expect any major difference of trading compared to what we had this year, the year of 2014, or even the …, the year of 2014, as a matter of fact, was not a great year in terms of trading, was below 2013. And we do not expect that to really increase. The banking book is the one who is really making more difference.

Carlos Macedo: Okay, thank you Roberto.

Roberto Setubal: Thank you.

Operator: Our next question comes from Tito Labarta, Deutsche Bank.

Tito Labarta: Hi, good morning, good afternoon for you, and thanks for the call. A couple of questions, one just falling upon on the assets quality a little bit, you did book some additional provisions in the quarter, I just want to understand a little bit more, you know, the rationale behind that, was it, you know, specifically related to Petrobras or, it just look drive that in the future, what are you concerned about there that had you to do those additional provisions?

And then, the second question is sourced on some headlines, I'm talking about succession plans could be starting on April, maybe you can give some more color on that in terms of the timing, you know, potential candidates for CEO, if you can give any color on that or just how you see that evolving. Thank you.

Roberto Setubal: Okay, starting with succession plans, I still have two years to go, so it's something that is down the road, is not something that we are really discussing today, what will be announcing is the head of wholesale and the head of retail business, as an additional step to that. This will take place until the first, until April this year, so it's not something, the process is going on, will be a natural process inside the Bank, I have been more recently delegating more and more, for this to be a natural process that will go ahead this year.

In terms of provisions that we have made last quarter, additional provisions, I think that we had, looking ahead, we see a year that will be a though year, there is a lot of uncertainties around, all those issues on Petrobras, on Lava Jato, on the corporate side, how this will impact constructors. So, we, observing this and the level of growth that we foresee, we thought that would be a good idea to make additional provisions for all these expectations.

Tito Labarta: So, we're just taking advantage saying the gain you had from the large risk and insurance operations being offset that with the additional provisions, being more just a kind of precautionary, more than anything?

Roberto Setubal: No, I think we would say that we would say that this was much more given that recently deterioration of the scenario in Brazil.

Tito Labarta: Okay, thank you very much.

Operator: Our next question comes from Mario Pierry, Merrill Lynch

Mario Pierry: Okay, good morning and congratulations on a very strong results. I have two questions, Roberto, the first one is related to your guidance for provisions of R$ 13 to R$ 15 billion, if you could help us understand or give us the breakdown on how do you see these provisions between corporates and consumer, and also, related to this, as you showed in your presentation, your coverage ratio 193%. Where do you think that this ratio is going to get by the end of the year?

And then my second question is related to Redecard, or Rede, we appreciated the improved disclosure that you are giving to us, and we noticed that Rede has gained market share now for two consecutive quarters, after losing market share for about one year and a half.

However your market share still is well below historical levels. So if you can give us more color specifically on Rede, what kind of growth rates do you think we could see out of the business and where do you think it market share can evolve to? Thank you.

Roberto Setubal: Okay, starting with the coverage ratio on those guidances of provisions, 13 to 15, we do not foresee any reduction in the coverage ratio, okay. We are keeping the level of coverage ratio to reach this level of guidance. In terms of how much provision we think that we will have of this 13 to 15 on consumers and how much to companies and corporate, the only thing that I can tell you is the fact that, compared to this year, we will have less provisions on consumers and more provisions on companies. I think this is what I can tell you.

In terms of Rede, you are right, Rede has been recovering market share. I think that at the beginning, when we started operating Rede after the acquisition, we put a lot of efforts in terms of integrating it with the Bank, reducing costs and expenses in general, improving the level of quality for clients, and this effort is now paying off. I think that, and also the alignment of the interest of Rede with the interest of the Bank itself, for the small business segment has been very strong. So, I think we are in a good moment, I think we implemented the right strategies and we definitively have been doing a good job in terms of recovering market share during these last two quarters.

Mario Pierre: Okay, thank you.

Operator: Our next question comes from Saul Martinez, JPMorgan.

Saul Martinez: Hi, good afternoon. I know this question is going to come across, is a little bit repetitive, so I apologize in line of all the questions and the discussions in the Portuguese call and you are prepared to march on your questions on this call. But I think that is, you know, a bit of a disconnect between investors in Wall and the market participants in what we are hearing about Lava Jato, rationing, the economy, very, very negative headlines and views on Brazil, and your guidance, and Bradesco's guidance, on loan losses provisions where you are expressing confidence that things will be, things are fine. So my question is more on corporate credit specifically, if you can elaborate more specifically on why you feel okay, in line of Lava Jato, in line of rationing risk, and if there is anything you can share with us in terms of, perhaps, structured loans, type of borrowers, collateral cash flows of borrowers, anything that can make us feel more comfortable and help us reach the gap as to why you feel comfortable with corporate credit in line with what seems like a pretty difficult environment.

And, secondly, I believe that in the Portuguese call you actually said that the economic plan issue is something that worries you or that is the bigger risk after for you and for the banking system, and then Lava Jato. Is there anything new there, anything that you would share in terms of what your expectations are with the economic plan issue and what your thoughts are on the potential for that to come before the supreme court?

Roberto Setubal: Starting with the economic plan and going into Lava Jato, I was asked what would be my worries looking ahead, and one of the alternatives that was given to me was mention the “plano econômico”. So, I think that the “plano econômico” is not something that is worrying me, as a matter of fact, I am much less worried today on “planos econômicos” than I was one year ago. I think things have been moving into the right direction, I think the ending of the issue itself it’s much more clear today, the fact that the banks have not gain anything on the economic plans and they basically have implemented what the law required us to do, is becoming much more clear to everybody, so I think the outcome will be positive. For sure, I worry about that issue because we don’t have a final outcome and the numbers might be big. But I’m very optimistic about a good outcome on that section. But given the fact that the number is a big number, I worry about it.

I do not worry about that much on Lava Jato from a, in terms of a direct exposure that we have. That’s why, I say, the exposure that we have to the companies that are involved in Lava Jato are relatively small, assuming that Petrobras, I’m not including Petrobras on that. Although we don’t have a big exposure in Petrobras, I’m very confident that Petrobras is not under risk of default. And the companies that we have exposure in terms of, that has been involved in the Lava Jato, first of all, the exposures are relatively small, second, most of the companies that we are talking about in terms of our exposure, are groups, and not companies exactly, but are groups that have much more assets out of that kind of activity. So, and we believe that if they have problems in some, in the construction business, they have other business and assets that they might sale in necessity, that makes us to feel very comfortable about the numbers that we have exposure.

It is important also to understand that is a number rolling out the press about 130 billion exposure of the Brazilian banking system to companies that are involved in Lava Jato. In reality this is a misleading number, because when we talk about 130 billion, this includes all companies of those groups. So if you look at some of the groups that were mentioned in Lava Jato, many of them have, the biggest ones, have a lot of other businesses, and businesses that have nothing to do with the construction company, and the number of 130 billion includes all the exposure of all other companies that have nothing to do with Lava Jato. Is basically companies that have partially the same shareholder, but not necessarily all the shareholders, because mainly of those companies are even listed companies. So, all the exposure that we have there are included in that number of 130 billion, when you take the number of companies itself that are really involved in Lava Jato, is a much, much smaller number. And a good portion of this number has collaterals and things. In our case, we feel very comfortable with the level of exposure that we have, it’s really not meaningful for us. Even if something goes wrong directly there, we do not expect this R$ 13 to R$ 15 billion to be affected, we are very comfortable with the exposure in Lava Jato and all those things.

Saul Martinez: Okay, that is great, so, just a follow up, I know you say you don't see any risk at all with Petrobras going to default, so, with Petrobras having had the ratings downgraded by the rating agencies, is there any risk, and I know your exposure is small, but is there any risk that you have to downward classify them it in the high risk pocket and that it can back the trigger at an additional amount of provision back in you bottom line?

Roberto Setubal: Assuming that we keep in line with the international raters, the classification that we have in our balance sheet, this will not affect at all the level of provisions that we have to do for Petrobras. Even this downgrade, we had already downgraded before, we are a little bit even more conservative, we have more granularities in terms of ratings than the agencies. But we are pretty much comfortable with the level of rating that the agencies are giving to Petrobras, we are even more conservative than they are.

Saul Martinez: Great, thank you very much, and congratulations on a very strong fourth quarter 14.

Roberto Setubal: Thank you.

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

Boris Molina: Yes, good morning, thank you for taking my question. I have a question regarding your presentation and the news lights and the breakdown between credit and services, you've mentioned this is a business model, and that you are going review the … But I have the impression that the old business model was still valid in middle bank and insurance, car, consumer credit, and … So, my question is does you intend to change the way you measure and manage the business or is this just an interesting set of lights, so that we can see that, you know, Itaú does have like other banks, free based businesses, like Bradesco and Banco do Brasil, however, you know, that's mean that you're trying to apply higher valuation, given this breakdown that you have presented? And the question goes because, you know, we know that Banco do Brasil has been doing this asset revenue striping in order to capital gains and support the capital rations and help the treasury under constrained physical position. But this breakdown of businesses doesn't make sense from the point of view that some of these businesses cannot exist without the other. So you can really be realistic and expect us to assume a separation because in the end there is a huge degree of cost that depresses the profitability of one segment versus the other, and to a large degree, its going like some game. So, what is your thinking regarding this, is this a real change in the way you see the business, are you going to continue to present the results on this format and not on the other format, what can we expect on this? Thank you.

Roberto Setubal: I think this is an excellent question and give us more opportunity to discuss the business model. I think one very important change that we have made since two years ago and now we are showing more results, more details on that, was the risk appetite.

The risk appetite that we are implementing in our loan portfolio, and the kind of pricing, and everything, is totally in accord with the capital requirement for that activity, so what we are trying to …, which we did not really did before as strictly as we are doing now? Is the fact that we are pricing risk much more accordingly to the risk itself and the capital needs that business have, that client have, that loan have. So, the big issues that we are putting more, much more emphasis internally since 2012, to the fact that loans have to be, have to, loans, the use of capital has to be paid by itself. So the loan price, the loan activity today is much better priced than it used to be.

This is a very important change, because probably looking back, if we go back many years, probably we were operating loans below cost of capital, if you look only loans. Now we are going in the direction of having loans much better priced, in terms of loans, especially in the low segments. In the corporate segment is more complex, but we do not consider reciprocity on services for medium and long term loans, this has to be priced accordingly to the capital that it uses. We do some calculations on reciprocity as, in a short term loan, but not in a long term loan. So this is an important thing to see.

Another important issue is the fact that a good portion, a very important portion of that business of services and loans, of services and insurance, is not related to clients that have loans in the Bank. I'm not saying that are independent businesses, but there is a, many, many clients, a good portion, as I mentioned, of that segment, does not take loans on the Bank. And it's important to understand that the Bank is a bank, is one company, we are not considering to split it or to float any of those businesses, but not necessarily the client of loan is the client of services. We have many, probably we have more clients in number that do not take loan and have services with us as compared to client that has loan and services. Because also in the loan business, we have clients, and we are reducing it, but we do have clients that only take loans. So, the way we are looking at that is okay, we have to adapt the Bank to this situation, but loans have to pay for itself, that's the first idea. Second is, not necessarily, this is important for you to understand, clients that are bringing me heavily on the services and insurance not necessarily they have loans in the Bank. So this is very important also to understand.

So, when we look the business this way, and we have all the internal targets and things, and we have been increasing, as we announced two years ago, the importance of services in our business, and all the investment in technology and everything, this is also consistent with this idea of increasing the level and the, the level of service and number of clients on services, and also revenue on services. So we are really trying to give more ways internally in our business to, loan business, even though we believe that the Bank will be always a bank, even though we like the loan business, but we are today, the vision is to manage the loan book in a much lower level of volatility, with much lower risk, and we can do that without jeopardizing the service business, the insurance business. As you can see, we reduced in many segments our loan presence, and we reduced the presence, especially in the higher risk segment, without suffering on the revenue of services and without reducing our presence in services in general. So, that's a very important point, the fact that clients are clients of the Bank and we have a supermarket of services to offer, not necessarily clients that we …, not necessarily clients that have credit with the Bank, have loans on the Bank, are the ones who really services from our services business. Is that okay?

Boris Molina: Thank you. Yes, it's wonderful. I have an additional question regarding the prior question of capital and going forward. You expect when you expand across Latin America that the local regulators will demand from Itau subsidiaries capital levels consistent with what will eventually be a domestically significant financial institutions, for Brazilian regulation meaning that it would probably see 100, 200 basis point capital structure in the Financial Stability Board recommendations, there is this caveat being blamed that potentially in Chile, is going to say, you know, CorpBanca, which have to the merger is going to be better capitalized but still short of, you know, that once we think the bank should have. Would potentially face an additional capital structure. Is there something that you foresee either in Chile or in Mexico going forward?

Roberto Setubal: That's a very important question, especially given the fact that we plan to increase our presence in other markets. Yes, there are differences between the capital requirements of Brazil, where we have our balance sheet consolidated, and capital requirements in other jurisdictions. In Brazil we have higher capital requirements than, compared to any other jurisdictions in Latin America, much higher. So, when we do an acquisition, we plan to do something, any kind of M&A transaction in Latin America, we basically consider the current level and the future levels of capital requirements that Brazil requires, so this is a, makes me feel, makes me less competitive compared to local investors, because I need more capital than local investors who have only to comply with their own jurisdictions. So, as other countries, like Chile, Colombia, become closer to Basel III, I will be more competitive, because the gap between the capital requirements here and there will reduce. Is that okay?

Boris Molina: Yes, thank you so much.

Operator: Our next question comes from Victor Galliano, Barclays.

Victor Galliano: Hello, most of my questions have been answered, but aiming to beat flogged dead horse here, but if we can go back to the credit quality question, one of the things that you did mention was about how much better your credit quality assessment was now, and using in part the Central Bank's data base. Is there anything that has changed in terms of your sourcing of credit and how you access credit risk in particularly with regard to consumers that is independent of the data base, in other words, internally? Can you give us any color on how that changed over the last year, year and a half, two years, since you made the strategic decision to move away from revolving credit, ex-credit cards of course? Thank you.

Roberto Setubal: Yes, there are many changes in the way we manage the risk of our consumer loan portfolio. In addition to check, for all the clients, the level of indebtedness, we also are much more conservative today on the collateral portion that we want for a loan, especially in the vehicle loans, we are requiring today much more collateral, so the client basically has to have an equity in that loan, so that we feel comfortable. That’s one of the reasons why we have being reducing our presence in that segment. The level of collateral that we are requiring is much higher. The level of income also is higher than we used to ask, and, so, we basically moved out a little bit of the sub-prime segments, so we are today much more concentrated in A and B segments compared to what we were two years ago. There are many other specific details, but basically the all policy for credits has changed, is much more detailed and carefully monitored, so that we monitor region by region, we monitor a lot of things that we did not use to do. But basically a lot of small things, like those that I mentioned, have changed.

Operator: Our next question comes from Nada Oulidi, Loomis, Sayles

Nada Oulidi: Hi, good afternoon, congratulations again on a very, you had another solid settled profits results. I have a couple of questions if, which I’d really be glad if you could clarify. The first one is, again, sorry to go back to question that kept come, being asked through all the call, but could you please go back to slide 24 and your 2015 outlook for the provisions. Could you please provide a bit more clarifications on your key assumption for why the provisions forecast would be in line with last year’s especially that this year would be clearly a more challenging year from a macroeconomic perspective and also we have the overhang of the “car wash” exposure. That’s my first question.

My second question is related to CorpBanca, could you please provide a bit more color on when you expect the transaction to be completed, and also, do you have any other expansion plans in Latin America for next year, for this year or next? Thank you.

Roberto Setubal: Okay, thank you. First, we do not envision any transaction in Latin America for this year, anything relevant. We envision that probably before, end of this first semester, beginning of second semester, we should have all the approvals then we should start consolidating CorpBanca in our balance sheet. Things are moving a little bit slower than we would expect, but that’s the way things happen with regulators and things.

On the guidance on loan loss provisions, I can understand that you guys feel surprised with this level of provisions given the fact that the macroeconomic situation is getting worst. And basically why I do feel comfortable with the guidance that we gave you? Basically because we started two years ago moving into a more conservative - more than two years ago, it was in 2012 - moving to a more conservative kind of risk appetite. So, all the loans that we have been originating since then have been under a different level of risk, much lower risk. That's why since then, if you look our numbers on credit quality and delinquency, we have been improving, basically because we …, at the beginning, very first moment when we started to this kind of policy we had a mix of much more loans that were underwritten in the old, let put this way, in the old previous risk appetite and a small portion of the ones that were underwritten in this new risk appetite. Since then, I mean, we are moving out of the loans that were underwritten in the old risk appetite and moving in into this new quality of loans, much better quality of loans, under the new risk appetite. So that's why we have been improving the risk quality of our total portfolio.

We have not gone through all this process, we still have in our book loans that were underwritten under the old risk appetite, and that's why we are still, even this year, it was a very bad year in terms of economic development, growth was close to zero, and by the way, we have, these last years we have had very low levels of growth in Brazil, so the next year growth won't be that much different from what we have had these last two years, so even though we have been improving our risk …, our delinquency ratio, exactly because of this mix of new risk appetite underwritten loans and old ones. So we are more and more moving towards to get to a point, probably along this year we will have probably 95% of our loans under the new risk appetite model.

So that's why we believe that we are still in a mood of improving things. I'm not saying …, if we had a stable risk appetite, even the new one, probably we would see a situation that we would show some deterioration, but the deterioration that we expect today is much smaller than the benefits that are still coming from cleaning up the books and improving the mix that we are still underway. Okay?

Nada Oulidi: Sure, so essentially the 13 to 15 billion incorporate both, the benefits from this deal risk which has taken place plus the coast from the Lava Jato exposures.

Roberto Setubal: Yes, you are right, and by the way, when, an important comment is that, if we had a more, I mean, if you look only the consumer portfolio, probably 15 competitors to 14 will have a lower level provisions, and on the company sides we would see an increase in provisions year to year. So, at the end, that's why, at the end, more or less, they balance each other, they offset each other.

Nada Oulidi: Thank you very much.

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

Roberto Setubal: Okay, thank you very much for having the opportunity to talk to you and showing why we are positive about 2015 year, and I was very glad also to share the views about our business model, which we'll get in more details in future presentations. Thank you all for being with us and for the questions. Thank you, bye-bye.

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