International Conference Call
Itaú Unibanco
1st Quarter 2014 Earnings Results
April 30th, 2014

Operator: Good morning ladies and gentlemen, thank you for standing by and welcome to Itaú Unibanco Holding conference call to discuss 2014 1st quarter 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 key followed by zero. As a reminder, this conference is being recorded and broadcasted live on the investor relations website at www.itau.com.br/investor-relations. A slide presentation is also available on this site and the replay of this conference call will be available by phone, on +55 11 3193-1012 or 2820-4012, access code 1259686#.

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

With us today in this conference call in São Paulo are **Mr. Alfredo Egydio Setubal**, Executive Vice President and Investor Relations Officer; **Mr. Caio Ibrahim David**, Chief Financial Officer; **Mr. Marcelo Kopel** and **Mr. Rogério Calderón**, Corporate Controller & Investor Relations.
First, **Mr. Alfredo Setubal** will comment on 2014 first quarter results. Afterwards, management will be available for a question and answer session. It is now my pleasure to turn the call over to **Mr. Alfredo Setubal**.

Mr. Alfredo Setubal: Good morning everyone, thank you for being with us for this conference call. For those who are following through the Internet, through the slides, we start on slide number two; the highlights for the quarter.

The first one is the results, the recurrent net income; R$ 4.5 billion with a growth of 29% when we compare to the first quarter of 2013. The second highlight is the ROE; 22.6, also a good improvement when we compare to the first quarter of 2013, 350 basis points, and also the quality of the credit portfolio with the NPL over 90 days 3,5%, with an increase of 100 basis points compared to last year, first quarter.

The financial margin with clients achieved R$ 11.9 billion in this quarter, with a growth of 8.6% when we compare to first quarter of 2013, and a reduction, a seasonal reduction, of 0.8% when we compare to last quarter of 2013.

The financial margin with the market, R$ 614 million, is under the volatility of the market and difficult to forecast and to see the numbers that have been very volatile in the last quarters. But anyway, it's a good number when we compare to the last 5 or 6 quarters, it is a good result in this line.

Loan losses expenses provisions, 4.3 billion in the quarter, with a decrease of 13.9% when we compare to the first quarter of 2014, and an increase of 1.4 here more related, when we compare to the last quarter of 2013, more related to the Credicard business that we assumed the acquisition last December. So in all the lines, of course, not only in this one, we have the impact of this acquisition.

Commissions and fees both grew, when we compare with the fourth quarter and first quarter of 2013, a big increase in this line and we achieved this quarter R$ 6.1 billion, what is a very good number this quarter.

Noninterest expenses, a growth of 9.2% in 12 months. Of course with the impact of the Credicard operation, when we compare to the last quarter 3.4% reduction. If we took out the Credicard numbers, just to make things more comparable with last year, the growth of noninterest expenses should have been 6% in the quarter, what is a number below the current inflation that we have in Brazil for this period. So we continue very tough in terms of controlling the noninterest expenses.

Efficiency ratio was a better number, 47.7, and risk-adjusted efficiency ratio achieved 66.4.

The loan portfolio is in a lower pace due specially for the pace of the economy, that is not very excited and very heated this year, continues the trend of last year, so the loan portfolio decreased 0.3% in this quarter, because mainly of the exchange variation for this period. If the Real shouldn't appreciate, the growth of the portfolio should be 0.8%, still low, but better, it should be better. The growth in 12 months,11.4%.

On page 3 we see the growth of the ROE. This growth, when we compare to last year, we have been growing above… showing ROEs above 20% since the third quarter of 2014 because of the strategy, I think it is the result of the strategy that we made in the last years to increase commissions and fees, decrease the risk of the credit portfolio and, of course, the improvement that we had in the control of costs. So it is a good return, 22.6% for this quarter.

NPL above the 90 days continues to drop since the second quarter 2012, and it's the best number, this 3.5%, that we have since the merge of Itaú Unibanco and is a good number even considering that this first quarter usually is unfavorable in terms of seasonality for the period.

Efficiency ratio this quarter, 47.7%, also an increase when we compare to 2013, and we will continue in the efforts of growing revenues and controlling costs to achieve even better numbers throughout this year.

And the risk-adjusted efficiency ratio, 66.4. Also a very good number and the best number ever that we showed in this line.

On page 4, more detailed results. We see the financial margin with clients growing 8.6 in 12 months and with a reduction of 80 basis points in this quarter. This is more related to the first quarter that usually is the weakest quarter for the banks and for credit portfolio, but also relates to the low pace of the economy that we're seeing here in Brazil. We continue to see the economy performing very low in terms of growth. We have a 1.4 GDP forecast for this year, so this growth of our credit portfolio will be limited during this year due to this pace, what will reflect, of course, in the pace of the growth of this financial margin with clients.

What is good to compensate, as I mentioned at the beginning, that commission and fees are growing in a very good pace, 18.3% in 12 months and 0.3% in this quarter, what will help to compensate the lower pace that we will see in the growth of the credit portfolio with our clients.

Loan losses continue to reduce, R$ 4.2 billion in this quarter, what is a good number, in line with the expectations that we have, that this line will continue to reduce during this year of 2014, and the reduction when we analyze 12 months is almost 14%.

Recovery of credit in this quarter was lower than last quarter of last year and will continue to keep the expectations that we have for loan losses net of recovery that we announced at the beginning of this year during the first conference call of the results of 2013.

Expenses R$ 9 billion. I think we continue to focus a lot here and we will continue to do that to be able to compensate lower revenues due to the pace of the economy, especially related to credit.

So, at the end, our net recurrent result, R$ 4.5 billion, I think it's a very good number, with a growth of 29% in 12 months.

Margin with market, on page 5, as I said, is very volatile, but anyway, is the second best number that we released when we compare the five last quarters of the Bank.

The recurrent ROE, I think we have a good number, when we did… the chart shows as we have been showing in the last quarters, the numbers with the treasury gains or the results with the market considering this 23.2%, I think it also shows that we have a good result and a solid and sustainable result for the Bank when we look specifically the operational side of our operations.

On page 7, the loan portfolio, we achieved a total risk in terms of credit of R$ 508 billion with a growth of 10.3% when we compare to 12 months and 0.8% in the quarter, here including all the endorsements, sureties, private securities, and the tradition of credit portfolio.

When we analyze closely the credit portfolio, we see that we continue to reduce our car finance business, the vehicle finance. We had a reduction of 8% in this quarter, achieving R$37 billion. We continue to expect this portfolio to reduce these coming quarters because the demand for cars and the pace of the economy continue to be very low.

On the other hand we see growth of payrolls, payroll loans, we expect this segment to continue to grow in terms of volumes, especially after the announcement that we made yesterday of the new structure of the JV with Banco BMG, that we are going to talk later. And also we expect the mortgage loans to continue the pace of growth that, in this quarter, was 4.2%. So mortgage and payrolls will continue to lead the growth in terms of credit for individuals and of course, with the acquisition of Credicard, this business of credit cards will also contribute for the growth of the portfolio.

In terms of companies, we don't see much demand for credit for corporates, for large companies. In this quarter, the growth was 0.6%, and we don't see a good environment for companies to really make huge investments this year due to the uncertainties that always come together with elections.

We continue to reduce the portfolio, especially of small and very small companies. This reflects in the size of the portfolio, considering small, very small and middle market companies we reduced the portfolio in this quarter of 1.9%. So this trend I think will continue in the coming quarters, of reducing this portfolio due especially to the pace of the economy that we're seeing in Brazil.

On page 8 a breakdown of the financial margin with clients. We finished last year in the fourth quarter, 11.9, and this quarter we finished at 11.8, so a small reduction. It's seasonal also because the first quarter is usually the weakest quarter for the bank in terms of business, but anyway, the composition for where we were in with what we achieved this quarter was related to R$ 251 million with Credicard new business that started with us this quarter.

Loan operations revenues 247. We had two calendar days less this quarter, 206 in terms of reduction, of less revenues. Mix of product clients and spreads also a reduction, still related to the adjustment of the credit portfolio and spread that we are finishing in terms of adjusting the risk appetite, R$ 255 million, and SELIC and other fees also a reduction of 74. So that's the composition, the breakdown of the differences of the margin with clients.

On page 9, net interest margin. Quite stable the gross credit spread in this quarter and also compared to the last two quarters of 2013. So we're not seeing much pressure in terms of spreads this period. In the net credit spread we have a small reduction more related to the recoveries, lower recoveries in this period.

On page 10 the credit quality, as I mentioned at the beginning, the NPL ratio continue to reduce to record levels. We finished with 3.5% this quarter and the peak of this ratio was in June 2012, when this number was 5.2. So with the adjustment of the risk appetite in the credit portfolio we were able to reduce substantially and achieve 3.5 and both segments have been contributing to this, both individuals that achieved 5.4 in the period and companies (large, middle and small companies), 1.9. So we continue to decrease and we expect some improvements in the coming quarters yet.

The coverage ratio improved a little, from 174% to 176. It was very comfortable for the credit portfolio that we have.

On slide 11 credit quality loan loss provision expenses also improving and we expect these numbers to continue to improve, even considering the numbers that also are through this year for the Credicard operations.

The total provisions finished this quarter with R$ 25 billion, with a reduction of the 26.4 for the end of 2014.

On slide 12 we can see for 15 to 90 days NPL ratio that is usually seasonal in this first quarter. It was quite stable when we compare to the last two quarters, with some deterioration, seasonal deterioration related to individuals. You can see that all in these quarters since June 09 that on the first quarters always have some deterioration, seasonal deterioration. But if we analyze, this year was the lower pace of deterioration when we compare to the last two or three years first quarters that we see... where we can see this seasonality of these numbers.

Commissions and fees on page 14 continues to improve, we had very good numbers, we have increased this quarter of 0.3% and 18.3 when we analyze and compare to the first quarter of 2013, achieving more than R$ 6 billion in this line. Considering the result of the insurance business, we can see R$ 7.4 billion in total result and fees for this period. And also we have revenues that came from Credicard. To make things more comparable, excluding the Credicard business to compare to last quarter of 2013, we can see that R$ 7.2 billion in this line.

On page 14 we can see the split of our results between banking operation, insurance and the excess of capital. We can see that from the result of 4.5 billion, 3.7 came from the banking operations, with a ROE of 22.6 and efficiency ratio of our banking operations of 50.3%. The insurance operations contributed with R$ 608 million, with a ROE of 58% and efficiency ratio of 35.3. And the excess of capital with a ROE of only 6.3, what reduced at the end the composition of our consolidated ROE.

The insurance operations in more detail on page 15 is something that we continue to focus. We concentrated our business on the bank assurance operations. The revenues net of claims of R$ 1.1 billion in this quarter. And we open here that, from these revenues, 58 came from the bank assurance, 31% came from the pension business that is an insurance in Brazil, as you know, and capitalization 11%. We continue to focus on bank assurance, remembering that we don't operate in the health insurance, that is very good in terms of revenues, but also brings a lot of claims, so we are focusing in our business with Porto Seguro, where we have 30%, and bank assurance. In this line, as you know, we announced that we are selling the big risks company that we have related to big companies, large companies in terms of insurance.

On page 16, noninterest expenses, we finished the quarter with R$ 9 billion, an increase of 9.2% considering first quarter of 2014, but here we include, of course, the consolidation of Credicard that we bought from Citibank by the end of the year. If we exclude the Credicard expenses just to make things more comparable with last year, we can see that the growth in

12 months was 6%, what is below inflation, just as a matter of making things more comparable.

Stockholders equity evolution, on page 17. We started the quarter with R$ 81 billion, we have a net income of 4.4 billion in this period, we paid dividends of R$ 3.5 billion in the period related mostly to the results of last year, of course. Asset valuation, R$ 300 million, equity transaction, 200 million negative, and stock options and others increased the stockholders equity in R$ 100 million. So that's why we started with 81 billion and finished with R$ 82.2 billion in the quarter.

This net worth shows a BIS ratio of 15.6, with a reduction related to the new regulations of the Central Bank, 11.1 in Tier I and, if you adjust to Basel III, our Tier I would be 9.6 in this quarter.

Market capitalization R$ 167 billion, with a daily liquidity of R$ 718 million per day, splitted almost equally between New York ADRs and Bovespa here in Brazil.

On page 20 the IFRS numbers. The recurrent net income increased a little to R$ 4.66 billion, especially related to the difference in provisions for loan losses. The ROE remained mostly the same, 22.6% both in Brazilian GAAP in IFRS.

On page 21, just to remember the outlook expectations that we have for 2014 that we are not changing at this moment, we will keep this. So the expectations to loan portfolio is to grow between 10 and 13%; loan and losses provision expenses net of recoveries, between 13 and R$ 15 billion; commissions and fees and the results for our insurance business, a growth of 12 to 14%; noninterest expenses growth of 10.5 to 12.5; and excluding the Credicard, just to make things more comparable, 5.5 to 7.5 is the growth that we expect; efficiency ratio an improvement of 50 to 175 basis points.

On page 22, what we announced yesterday, in line with the growth of the portfolio especially related to loan payrolls, we are… in Banco BMG, we concentrate all the operations of payroll business in the JV that we have together with them – Itaú BMG – and so Itaú Unibanco will reduce the participation in the JV to 60%, coming from 70 and Banco BMG will increase from 30 to 40%. But on the other hand all the business will be under the JV. What we expect is that our loan portfolio in this JV alone will be over R$ 20 billion by the end of the year, what is a number that today is around 12. And, of course, we will continue to grow our own business of payrolls through the branches, in this case, more related to the private sector employees' business.

To finalize, on page 23, we made a very important improvement, we consolidated our annual report including GRI sustainability ratios, the 20F and the debt report into one, so it makes things easier for the investors and analysts of equity and credit to make their analysis of the Bank. And we also, for the first time and the first bank in Brazil, to release the integrated report, is a new approach to show the numbers in the strategy of the Bank in an easier way for investors and for shareholders and so on, what shows in more detailed and in an easier way, as I said, our strategy and the numbers of the Bank. So everything is on our website, so if you want to download this I think it is important, is a new approach in line with the transparency of the Bank to our shareholders, stakeholders and everyone.

So this ends the presentation and we are open for questions from you.

Q&A Session

Operator: Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question, please, press the star key followed by the one key on your touchtone phone now. If at any time you would like to remove yourself from the questioning queue, press star two.

Our first question comes from Daniel Abut, with Citi.

Mr. Abut: Good morning everyone. I normally ask you a question that I will try again, I suspect what the answer will be, but let me try again. If I look at page 6, when you look at the evolution of your ROE, we you correctly explained there that now for three consecutive quarters you've been posting ROEs significantly above 20% - 21 to 24% - on a trading basis for four consecutive quarters, you are actually now significantly above 20%. When you have indicated where you think you can sustain your ROEs you normally say at least 20%, and it continues to seem to me that that is too conservative that your track record over the last three or four quarters clearly show that you can sustain - at least as far as we can see, long-term, long-term, who knows? - but at least in the foreseeable future well above 20%. What do you see in terms of ROE in the foreseeable future, let's say 2014 to 2015? What is a more realistic level than just 20%?

And my second question, if I look at page 8 when you look at the… you show evolution of your loan portfolio mix, which is a clear reflection of your strategy, when you started this derisking strategy about two and a half years ago, the composition of what could be considered a relatively higher risk and relatively lower risk. If I consider relatively lower risk, corporate loans, mortgage loans, payroll loans and Latin America was about, if I'm not mistaken, about 2/3 relatively high risk, 1/3 relatively low risk. Now, fast-forward to first quarter 2014, that's about 50/50. You continue to grow faster in the relatively low risk, corporate, mortgages, payroll, Latin America. If I look ahead over the next few years, where do you think that mix can evolve, in terms of relatively low risk and relatively high risk, from the current roughly 50/50 that you are right now?

Mr. Marcelo Kopel: Good morning Daniel, it's Marcelo he speaking. I'll start with the second question, since the first one is a recurring one, but I'll start with the second one and then.
The loan portfolio mix, as a matter of fact, as you correctly pointed, we've been shifting it towards a less riskier portfolio. We rebalanced that. It might, over the course of the next years, you may see it skewing to 60 or even 70% of the less risky assets in favor of the risky assets, so, you know, in a longer term 70/30 could be something.

Regarding the other question, we've been saying that for short term you may see higher ROEs in our case, because of a favorable market or interest rate environment, or the benefits, the early benefits of the derisking strategy where we have significant benefits from reduction in NPLs and gains of efficiency. So short term, you know, I will confirm that you will see as you are already seeing higher ROEs, but longer-term, a sustainable level, we still believe 20% is the number. And I'll make a caveat here that we constantly look at the benchmark rate in our cost of capital, so if you have a higher cost of capital, the way we look at it is the spread over the cost of capital. So depending on how the cost of capital behaves, you could see the number going up or going down.

Mr. Abut: Let me just a quick follow-up Marcelo, when you say short-term and long-term, how do you define short term?

Mr. Kopel: I'd say two to three years, and longer-term I'd say, you know, three years onward, but Daniel is very important for us to keep an eye on the cost of capital. This is really key in our equation.

Mr. Abut: No doubt, but you're saying then that over the two or three years it wouldn’t be a surprise if you keep posting ROEs above 20% and then longer time beyond three years 20% is a realistic target?

Mr. Kopel: That in the current environment, Daniel. It's needless to say that things are kind of in a changing pace here in Brazil. So this is to the extent the current environment are slightly better happens, this is what we believe.

Mr. Abut: Fair enough Marcelo, thank you very much.

Mr. Kopel: Thank you.

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

Mr. Kuri: Hi, good morning, Jorge Kuri here. I have two questions if I may. On assets quality you’ve been moving towards lower riskier products and that has had an impact on your reported NPLs and we've seen NPLs compound over the last six quarters, basically. I guess my question is, you know, at what point the normal aging of the portfolio because, you know, even though your overall loan book hasn't expended when you look at it on a consolidated basis, there are products that have been growing a lot like payroll loans portfolio for example and credit cards and those will age and will start to show NPL. So at what point you think it's fair to expect to see the trend in NPLs to turn around and move higher, just from a normal part of the cycle, and then obviously overlaid with the fact that you are also derisking, even if it is probably not an easy question, but if you could help us understand how those two factors are affecting your NPLs are going to play out on a consolidated basis?

That's question one. Question two refers to payroll loans. It does seem that every bank – and, again, I think that this is also part of the derisking process – you know, most of the banks are focusing exactly on the same things. They are moving away from risk, focusing on safer products, payroll loans, particularly everyone is focusing on payroll loans. We are seeing at least from the numbers that the Central Bank reports on spreads on origination, but the spreads on origination on payroll loans are coming down basically every quarter, and that's really the product that is growing in Brazil. So I wanted to get your, you know, now that you were putting more emphasis on payroll loans with the announcement you made, how do you see that playing now? You know, are we going to continue to see spreads compound? How much more can spreads compound, you know, how do you think this is going to affect your overall financial margins? I mean, you did present on page 8 a sort of like the impact of the mix of products lines and spreads continue to negatively affect growth, so that NII is growing lower than loans. So how does that play out? Thank you.

Mr. Kopel: Jorge, thank you for your question. I'll start with the second question then we will move back to the first one.

As a matter of fact, everybody is really focusing on a less riskier products and it is important for us, the JV we announced reemphasizes our commitment to this market and the ability to distribute this product. We have our own distribution throughout our branches and the way we sign up with companies as well so to have their payroll signed up with us for this type of loans, but we also, it's important the JV we have because that expands our distribution capacity.

Spreads, yes, spreads are coming down, but in a way that still, when you look at our risk-adjusted basis, it’s still a very interesting return for us and therefore we will continue to work on that. But one important thing here, Jorge, is: we are not doing only this, we are looking to do more corporate, we are looking to do other types of lending. The reality is that, as we saw, the vehicle finance portfolio is at a lower pace than everyone in the market have expected. So if we didn't have that slowdown, you know, the mix of the portfolio where you have higher returns blended with the slightly lower returns will help mitigate the pressure on NII and net interest margins. So because we are seeing that strong slowdown in some of the portfolios, that is, at this point in time, putting more pressure if anything.

One thing that we see going forward is, with the JV we gain more scale, so if we don't see the returns coming from the NII line, we may see it coming from the cost line and other efficiencies that we may capture. So that's one of the things that we look specifically on payroll.

Regarding asset quality and the fact that the NPLs are going down, and the mix is pushing it down, when you look at the speed we renew our portfolios, credit card is a very short term duration. So the products that have longer duration are basically mortgages and vehicles. So in those two cases the new vintages we are bringing, they are coming with a better quality, much better quality than the vintages we had before that, specifically in the case of vehicles, and this will help at least keep NPLs at a healthy level or the level we're seeing now. If things improve even more, or if the economy improves even more, we may see some slight improvement on that. But the way we see it is, it's in a way that we are comfortable and we are managing our risk, we are not changing our risk appetite. So I don't know if that addresses your question.

Mr. Kuri: Well, partly yes, thank you Marcelo. But I guess that, we all know that credit quality goes in cycles, it goes up and goes down. And if you look at the past many years of cycles, you know, cycles normally last six or seven quarters and then turn around. I guess my question is: you are already seeing six consecutive quarters of NPL improvement, which is in line with previous cycles. So the question is, more specific, when do you think that turns? When do you think that, from a normal aging of books you will start to see NPLs go up? Again, I am not asking you to tell me when we are going to see a massive NPL problem, it's just that, you know, the normal cycle, when do you expect this trend to turn?

Mr. Kopel: Jorge, I appreciate your point, but had we done the same thing we've done in the past, I couldn't agree more with you that a cycle could come. But we change… since we materially changed and we continue to change and foster the strategy of less risky products, when you look at our portfolio mortgages, the loan-to-value of the portfolio is around 40%. New originations are coming between 60 and 80%. When you look at our vehicle finance, the way we're doing it now loan-to-value is around 60%. When you look at corporates, and when you look at small enterprises, small enterprises we are doing and emphasizing collateralized loans backed up on receivables. So I would agree with you that a cycle could come hadn't we changed our strategy and focus on the derisking. So I could agree with you had we done the same thing, but we are not doing the same way we've done in the past.

Mr. Kuri: So, that means you expect NPLs to continue to improve for how long then?

Mr. Kopel: I'd say if they level off at the stage we are, and I think we will be okay, but if the payroll becomes even more relevant and if the, like in the previous question I was saying that we could reach between 60 and 70% of our assets skill to more less risky assets, then we could see some improvement in NPL. But that basically will come with the execution of our strategy.

Mr. Kuri: All right, thank you.

Mr. Kopel: Thank you.

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

Mr. Macedo: Good morning gentlemen, thanks for answering questions. Congratulations on the results. A couple of questions. First, on expenses you did report fairly sub-deleveled growth in expenses in the quarter and also year on year. The difference between the expense growth with and without the Credicard acquisition was around 3%, your guidance for the year says around a 5% difference between the two. Assuming that as the year goes by you will be able to crystallize, or to make, or to find more synergies within the operations, which I think it is a reasonable assumption, do you still hold that 5% difference or should we expect that we are going to see better cost or lower-cost growth given that the integration is proceeding and the starting point is that much lower?
The second question that I have is related to loan growth. Of course, loan growth has been weak, the economy isn't really forthcoming for further loan growth, but the outlook that you have you are still… you are maintaining your guidance of growth for the year, which kind of implies an acceleration through the end of the year. What would actually make that happen? Would it take more credit appetite from Itaú? Would it take a bigger amount of demand for loans from the general public? Would it be in the consumer side? Would it be in the corporate side? What exactly are you seeing for the next 12 months that would allow you to meet your guidance in loans and loan growth? Thanks.

Mr. Kopel: Thank you for your questions, I'll start with the last one. You know, when we talk about loan growth there is a lot of moving parts as the economy is in a slow pace. Too many moving parts we saw about auto financing, but at the same time we just announced the BMG, the next step on the BMG joint venture. So given the moving parts we have at the stage we don't see a need to change our guidance. We are comfortable with the guidance, you know, it's a 10 to 13% range for the year, so we would stick to that for the moment. If things materially change and we have a few that we need to change, we will definitely address that in one of our conference calls. Regarding expenses…

Mr. Macedo: Marcelo, If I could just interrupt, just a quick follow-up then. If that's the case, and if you exclude to the Credicard acquisition from your loan book then your growth is below 10%, what would actually take you to 10% to get to the bottom of the guidance. Would it be greater demand or just greater appetite from Itaú?

Mr. Kopel: No, we are not changing… that's a good point, Carlos, we are not changing the risk appetite. And regarding the Credicard acquisition, that was embedded in our guidance, so we already had Credicard embedded in our guidance. What we didn't have was the next step on the joint venture with BMG. So as I said, there are many moving parts at this stage, but we don't feel the need to revise our guidance.

Regarding expenses, there is seasonality throughout the year. As you know, we are one of the biggest, one of the major sponsors of the World Cup, and associated with that there are seasonality on the expenses for the year. So, again, we don't see a need to revise the guidance now. As a matter of fact, you correctly pointed that we have room for the integration on Credicard, there could be opportunities and synergies that could be captured, but we will probably address that in the follow-up quarters.

Mr. Macedo: Okay, but the difference of, the 3% difference in growth and expenses both year-over-year and quarter over quarter that comes from the integration of Credicard, the guidance is 5%, there could be upside potential from that guidance right? In other words, it could be three or could be even less.

Mr. Kopel: Yes, there could be, but as I said, we need to, it's the first quarter, the operations aren't really with us, we are in the process of migrating systems and portfolios. So, at this stage we are holding ourselves to the previous guidance.

Mr. Macedo: Okay, thank you Marcelo, thank you gentlemen.

Mr. Kopel: Thank you.

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

Mr. Labarta: Hi, good morning everyone and thanks for the call. My question is a bit of a follow-up on the asset quality question. Looking at more from the provisioning level we could see provisions rise a bit on the quarter even before recoveries growth provisions that show small increase. But if you do think asset quality can potentially improve further, do you think that provisioning levels can also come down along with that? I mean, you are somewhat untracked delivering your guidance of the 13 to 15 billion of provisions, but I just want to get a sense if you do think asset quality can potentially improve? Does that mean that provisioning levels can come down or what we saw in the quarter is the indication that it should grow roughly in line with loans to maybe begin to grow faster than loans going forward since we did see a pickup compared to last quarter? Thank you.

Mr. Kopel: Tito, thank you for your question. At this stage we are, you know, the way we are seeing our cost of credit is within the range or slightly better than the range we guided earlier in the year. And we continue to see that for the rest of the year. You may see a reduction on our cost of credit expenses. This quarter in particular, we had to the seasonality on the recoveries, but that was expected. So we are within the trend. One may argue that we are in the lower range of our guidance, but that, you know, as we move on towards the year, we will see how close we are to the low end or to the midpoint of our guidance. So as of now we are comfortable with the guidance and we should expect expenses to behave within that.

Mr. Labarta: Okay, thanks. Does that suggest that the small pickup we saw was mainly due to seasonality, but you're saying that if asset quality improves you could kind of revisit this number in the future, if you do see some changes with your expectations of asset quality even your loan mix?

Mr. Kopel: Yes, the pickup was really for credit card 200 and 200+ million on that line. So, as we see eventually slight improvements in the quality, you may see a pickup on the expense, as you correctly pointed.

Mr. Labarta: Okay, thank you very much.

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

Ms. Oulidi: Hi good morning. Thank you very much for the presentation. I have a couple of questions, if I may. The first one is related to the merger with CorpBanca. Could you please provide an update on the status of the merger and when we should expect the completion of the transaction?

And the second question is related to BMG. If you could, please, elaborate a little bit more on the recent announcements and the rationale for the decrease of Itaú's participation or stake at the JV? Thank you.

Mr. Kopel: Starting with the CorpBanca, the timetable for that, we expect that to be a fourth quarter event, given all the necessary approvals we need to go through. We need to have the Brazilian regulators, Chilean, Colombian and also in the US and Panama. We just got a note that the Colombian regulators did approve the transaction, which is in line with our expectation. So, it will probably become a fourth event.

Regarding the JV, the way it's going to work is, we will, you know, by a capitalization BMG will increase its share on the JV, whereby we are going to be issuing shares and BMG will be the only one subscribing those shares. So basically we will be diluted and reach a 60% level. And the way it is going to work is: 100% of the loans originated by the JV compared to the 70% that was previously originated to the JV, so therefore, the funding of all the originated loans will stay within the JV.

Ms. Oulidi: And what is the rationale for this change?

Mr. Kopel: The rationale for this change is: the market, from our perspectives, it's a market that is one of the priority markets for us, we want to continue to increase our distribution, and that was a second step. You know, when we announced the JV at the end of 2012, one of our goals was to achieve R$ 12 billion by the end of two years. We are now at R$ 12 billion before that, and we believe that the success of that made us do the second step, which was already part of the original transaction. So it's a market that we want to be and we want to have the JV being a key part of our distribution.

Ms. Oulidi: Okay, thank you.

Mr. Kopel: Thank you.

Operator: Our next question comes from Daniel Magalhães, with Credit Suisse.

Mr. Telles: Hello everyone, Marcelo Telles from Credit Suisse. Thanks for your time. I have two questions actually. The first one is on credit spreads. How do you see credit spreads evolving in your main business lines going forward? We've seen, based on the Central Bank data, that credit spreads have been on a rising trend and we saw public banks increase spreads materially on working capital loans, now for the first time matching pretty much the levels of the private sector banks. So I was wondering if you see more room in general, but particularly in the commercial side if there is room for further increases?

And the other question, just if you can remind me, what would be your core Tier I ration under Basel III including CorpBanca? I know in your presentation has 9.6%, but I'm just not sure whether this includes CorpBanca or not. Thank you.

Mr. Kopel: Talking about the CorpBanca, when we did the first calculation, the initial impact of CorpBanca would be something around 15 bps, and when we do it looking on a prospective basis, with the full implementation of Basel, would be around 50 basis points.

Regarding credit spreads, we are seeing, as you said, slight adjustments, you know, the market adjusting spreads. In our case we are doing slight adjustments in certain products. But we have to remember that there is a difference between what private banks were doing and public banks were doing. So, as a matter of fact, you are seeing the change in the spread as a whole for the market, but they are distinct adjustments between the banks. In our case are slight adjustments in certain products, and it's just a reflection of the increase in SELIC and adjusting for the risk as well.

Mr. Telles: Kopel, thanks for the answers. If you allow me just one more question, in the event of a much bigger, let's say, pullback of public banks, particularly on the SME side, you know, going forward, how do you think that would impact your assets quality? Do you think that would have any impact at all, or maybe you are in very different segments? I mean, how much overlap you think there is in that segment, at least for you?

Mr. Kopel: We have very little overlap on that, Telles, and one of the things that we say - and just to link that to the previous question about spreads - the way the market was pricing certain risks, there is a group of clients that we like the risk but the pricing of that risk wasn't adequate to what we saw. We still like the risk, but at the right price. So if the market is adjusting that, that could be an opportunity for us in that particular segment.

In terms of a pullback from the banks, there is little overlap, so we are not seeing any, let's say, spillover effect over our portfolio or nothing material that could bring us to a jump in our delinquency.

Mr. Telles: Thanks Kopel, very straightforward answers. I appreciate it.

Operator: Our next question comes from Anibal Valdes, with Barclays.

Mr. Valdes: Good morning everyone, thank you for the opportunity to ask a few questions. The first question is regarding the number that you show for fully loaded Basel III core Tier I capital ratio of 9.6. In your press release you mentioned that that number, the 9.6%, is after the application of some mitigation measures. I just wanted to understand better what those mitigations mentioned are?

And also if it's fair to say that the deductions that you show in the first quarter from core Tier I capital, for the prudential adjustments, is equivalent to 20% of the total adjustments that you would have to make towards Basel III fully implementation? That's the first question. Thank you.

Mr. Kopel: Okay, what we see as a mitigating measure is basically, you know, regarding diversification on insurance and some other risk mitigating factors.
Regarding your question on the second question, the reduction in capital, it's basically the reductions that were already mandated by the Central Bank, they were already scheduled as the next year reductions are. So, it was basically following the regulations that were released and that impacted the whole system.

Mr. Valdes: I'm sorry, I think I maybe wasn't clear enough. On the mitigation measures, is that related to the reversal of the excess provisions or liberating of excess of capital in the insurance company or the spinoff of certain businesses to raise capital? I mean, how should I understand what are the sources of those mitigation measures and how much money would that be? Just to have a better idea of that fully loaded 9.6%, how much you are accounting in terms of billions of Reais for mitigation measures? What are the sources of those mitigation measures?

Mr. Caio Ibrahim: Hi Anival, this is Caio speaking. Just to follow up on Kopel's answer, that's pretty much related to the optimization of the insurance companies capital. So we still have some room for moving towards that direction, and that's why we are mentioning here that we are considering some mitigations to show exactly the figure that we expect to have in the coming quarters regarding this after this optimization that I just mentioned to you. And in this figure there is no reversal of any provisions at the balance sheet of the Bank.
Mr. Valdes: Thank you, Caio. And in terms of money, how much you are accounting for those mitigation measures?

Mr. Ibrahim: We are talking about a couple of billion Reais here of optimization in the whole structure of the insurance companies plus nonfinancial companies, in our structure here at the Bank and relating to those companies. But it's something that is planned already, so there is no further difficulty to get there. It's just a matter of time to do that kind of optimization here.

Mr. Valdes: Thank you Caio, and is it also fair to say that the deductions that you show for prudential adjustments in the first quarter of this year are equivalent to 20% of the total reductions were that's more than that, or less?

Mr. Ibrahim: Well, that's pretty much the whole impact of the Basel III schedule, which is implemented by the Brazilian Central Bank, in line with the BIS schedule. So that's pretty much what we see as a reduction in the Tier I capital in the first quarter, especially because we did not grow the risk weighted assets this quarter, so that's pretty much the result of this.

Mr. Valdes: Oh yes, I'm sorry, but the schedule is 20% each year, right, beginning this year, for that reduction, in that prudential reduction?

Mr. Ibrahim: Yes, there is not a macro prudential, it's just the schedule and you are going to see the same effect in the same quarter of the coming years. That's why, which is important, we are looking at the common equity Tier I as the capital ratio to be followed by the Bank as a forecast to manage our balance sheet with exposure.

Mr. Valdes: All right Caio, so the 6, I'm sorry about this, but is it fair to say that 6 billion or the R$ 5.9 billion of deductions that you applied on the first quarter is 20% of the total deductions? Is that correct?

Mr. Ibrahim: I would say yes, but the team here will confirm to you exactly the breakdown of this, okay?

Mr. Valdes: Okay, thank you Caio. And quickly, the second question is regarding the write-off of loans. You have been talking a lot about assets quality improvement, and the truth is the assets quality improvement has been very significant over the past year or year and a half, but when you look at the write-offs as a percentage of the total portfolio, I calculate that currently there are 5.5%. So the question is that given that NPLs are currently at 3.5%, and you mentioned that you might see even a further improvement in terms of assets quality, what are you expecting in terms of write-offs as a percentage of the loan portfolio? Will we see also an improvement in that metric or you think that you will stabilize around 5.5% or maybe 5% going forward? Just to have more color in terms of write-offs.

Mr. Kopel: When you look at this quarter in particular that there was an item, regardless if we segregate the specific seasonality, there was an additional write-off regarding to vehicle financing. So when you look at the trend, the trend as the charge offs, should be reduced. So, then, depending on how the portfolio behaves overall that will give you the answer on the percentage of the charge offs over the portfolio. But it's important to emphasize that this event in this quarter, the number of this quarter, had that particular two impacts of seasonality and the vehicle financing additional charge offs.

Mr. Valdes: All right, thank you. In terms of charge off, what you are expecting if the level of NPL stay at 3.5%, going forward, what would you expect in terms of charge-offs as a percentage of the loan portfolio for the next years? Is that materially lower?

Mr. Kopel: I'm sorry, we don't guide looking forward for the percentage we expect.

Mr. Valdes: All right, thank you, thank you very much.

Mr. Kopel: Thank you.

Operator: Our next question comes from Natalia Corfield, with JP Morgan.

Ms. Corfield: Good morning all, thank you for the question. It's a follow-up on your common equity Tier I. How much would this ratio be if we disregard this mitigant that you are considering, and I'm talking about the fully loaded of 9.6%? That's the question.

Mr. Kopel: It would be around 8.5 and 9%.

Ms. Corfield: So, it would be lower?

Mr. Kopel: Yep.

Ms. Corfield: 9%?

Mr. Kopel: Yep.

Ms. Corfield: Okay. And another question, in terms of asset quality, you've been guiding for a continued reduction, but I'd like to know, given what you were expecting for 2015, what can we see in terms of assets quality?

Mr. Kopel: We continue, again, the strategy won't change. So to the extent there is no material change in the economic environment and nothing that will deteriorate, you know, the overall environment, the assets quality should remain relatively stable to what we're seeing now. And remember that there is the economy that rules everything that happens, and there is our strategy that has been executed, consistently executed over the last quarters and we'll continue to execute that moving forward.

Ms. Corfield: All right, but your, you have a GDP growth expectation for 2014 of 1.4%, which is kind of low. If we have something similar for 2015, do you think you will have a stable assets quality or do you think you can have some deterioration?

Mr. Kopel: Our view is that we are going to have it stable and, by the way, our forecast for next year GDP growth is 2%. So it's not materially different from what we have for this year.

Ms. Corfield: Okay, thank you.

Operator: Ladies and gentlemen, as a reminder, if you would like to pose a question, please, press start one. This concludes today's question-and-answer session. Mr. Alfredo Setubal, at this time you may proceed with your closing statements.

Mr. Setubal: I'd like to thank everybody for participating with us in this conference call. I think we have very solid results, very good numbers and, more important, very sustainable numbers for the coming months. Thank you everybody and wait to see you again on the next conference call for the second quarter results. Thank you.

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