**Itaú Unibanco**

**International Conference Call**

**Second Quarter 2016 Earnings Results**

**August 3rd, 2016**

**Operator:** Good morning ladies and gentlemen, welcome to Itaú Unibanco Holding conference call to discuss 2016 Second Quarter Result.

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. The audio webcast works with Internet Explorer 9 or above and Chrome, Firefox and mobile devices (iOS 8 or above and Android 3.0 or above). A slide presentation is also available on this site. The replay of this conference call will be available until August 9th by phone, on +55 11 3193-1012 or 2820-4012 – access code 3452156#

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. Eduardo Vassimon, Executive Vice President, CFO (Chief Financial Officer) and CRO (Chief Risk Officer); and Mr. Marcelo Kopel IRO (Investor Relations Officer).

First, Mr. Eduardo Vassimon will comment on 2016 second quarter result. Afterwards, management will be available for a question and answer session. It is now my pleasure to turn the call over to Mr. Eduardo Vassimon.

Eduardo Vassimon: Good morning, good afternoon. Welcome again.

We will start at page 2 with a relevant information: we are in this quarter consolidating in our financial statements the operations of CorpBanca, given the fact that the merger between Itaú Chile and CorpBanca was concluded on April 1st at controlling shareholders, although with 33% or 34% ownership only, we are then consolidating our figures.

We are presenting historical data *pro forma* to allow a better comparison with previous periods with inheritance limits of this type of information. So we are including in our income statements all the lines, in our lines, 100% of Itaú CorpBanca results and the minority shareholder is shown… in the minority shareholder line we deducted the bottom line.

Going to page 3, I'd like to call your attention to some particular points. In general, we believe that we had a good quarter, particularly considering there still challenging environment, we start to see some more positive elements that allow us to be more constructive on the development of the Brazilian economy.

We had in this quarter a R$ 5.6 billion recurring net income in the consolidated figure and R$ 5.2 in the Brazilian operation. Given the CorpBanca operation and the importance that the Latin America operations became after CorpBanca deal, we are going to present several indicators segregating the total and Brazil.

In terms of ROE, both in the consolidated and in Brazil, we run in this quarter around 21%. In terms of credit quality measured by NPL 90 days, we had a small increase of 10 basis points both in Brazil and in the consolidated. We are going to talk a lot more about credit in the next slides.

Going to page 4, so here we are now back again to the 20% level return on equity in the consolidated, keeping this level in the Brazilian operation, both showing an increase compared to the previous quarter.

Going to page 5 we have the main lines of our PNL. I'd like to call your attention to some points: first, is a reduction of 5% on the managerial financial margin in this quarter compared to the previous quarter. This is partially due to the reduction of financial margin with the market from 1.7 in the 1st quarter – that was a particularly strong quarter – to R$ 1.5 billion in this 2nd quarter.

Commissions and fees showed a strong growth of 6.6% in this quarter. We have some seasonality elements here, the 1st quarter tends to be weaker. In 12 months we have a 7.1% increase, so a little bit below inflation.

Another relevant point is the relevant strong reduction in the result from loan losses, 23% below the level we had in the previous quarter.

Noninterest expenses, we had a 4.6% increase this quarter. There is, here again a relevant seasonality. So it's, in our view, more appropriate to look at 12-months period. So comparing the 1st half of this year with the 1st half of 2015 we have a 6.3% increase, well below the inflation in Brazil.

Income before taxes and minority interests showed a 19% contraction when we compare the 1st half of this year with the last year. When we go to the bottom line, recurring net income, this reduction is 10%, so well below the 19%, and this is basically related to a lower implicit tax rate. Looking forward, we believe that in the whole year of 2016, the implicit tax rate should be something between 27 and 28%.

Going to page 6 we have the breakdown here between Brazil and LATAM ex Brazil on the PNL. I'd like to call your attention to the evolution of financial margin with clients in Brazil. We showed a reduction of around 3% here, but we had a specific event of impairments of around R$ 540 million. If we do exclude this element, we would have had a growth of around 1% in this period in Brazil.

Commissions and fees again a strong increase. So the bottom line both for Brazil and Latin America shows a good improvement comparing to the previous quarter.

Going to page 7, we have this breakdown between credit and trading on one side and insurance and services on the other side. The insurance and services business, that's more stable and less related to the economic cycle showed a real event increase from R$ 3 billion to R$ 3.4 billion from the first quarter to the second one, while credit and trading showed a reduction from R$ 2 billion to R$ 1.8 billion. This is, as I already mentioned, partially related to the lower performance of margin with the market.

If we look at the recurring return on equity for insurance and services, we show a strong 36%, while for credit and trading we are around 13%, so below cost of equity.

Going to page 8, we have here the credit portfolio. As a result of the economic situation and a weak economic performance of the country, we had a reduction, a nominal reduction of 4.5% in our credit portfolio, expended credit portfolio, so including private security, endorsements and sureties, and if we exclude FX variations, this reduction would be smaller, 1.6%.

Credit card loans basically flat in this quarter compared with the previous one, and a 3.2% reduction in 12 months.

Two lines of business show here a nominal increase in 12 months: payroll loans and mortgage loans. Mortgage loans particularly stronger, and this is aligned with our strategy of moving our credit portfolio to lower-risk lines of products.

Corporate loans suffered from both the economic environment and the appreciation of the real in this quarter – it was around 10%. The same is true for Latin America with 8% nominal reduction.

In the lower part of this page we see the breakdown of our Latin America credit portfolio. Here becomes clear that CorpBanca operations, that comprise both Chile and Colombia, represents 85% of our Latin America credit portfolio.

Moving to page 9, we have here the evolution of the Brazilian loan portfolio in percentage. And here again we see strong increases in mortgage and payroll loans, a strong reduction in vehicles and some stability in corporate personal loans and credit cards. And in very small, small and middle market, some reduction over the previous years.

On the upper part of this page we included the Latin America portfolio that, given the incorporation of CorpBanca operations, now shows a strong number here in terms of percentage, 26% of the portfolio is now related to Latin America.

Because we have only 33% / 34% in terms of economic interests, this would be 12.3% if we calculate this considering 1/3 of Chile and Colombia operations, 100% of Argentina, Paraguay and Uruguay.

Moving to page 10 and talking about financial margin, taking here the spread sensitive operations, we see a reduction from 11.1% to 10.9% in this quarter, and this was… this 10.9% was impacted again by the impairments that I mentioned previously. Without this element, this financial margin would have been 11.4%.

In the risk-adjusted curve we see a strong recovery from previous quarters, from 6.1% to 6.8% or 7.2% without the impairments. And here again is related to the fact that the previous quarter was… we had a particularly high number in terms of provision for loan losses.

Moving to page 11, we show the financial margin with the market. Again a quite good number of R$ 1.5 billion, although lower than 1.7 we saw last quarter. In this line, looking ahead, given the good performance of the 1st semester and the incorporation of CorpBanca, we believe that we should reach something around R$ 6 billion in terms of the final number for the year, so up from the R$ 5 billion that we had indicated before the CorpBanca operation.

Moving to page 12 and starting to talk about credit quality, on the upper part of this slide we have the 90 day NPL ratio on the consolidated basis, we see on the green line stability in Latin America NPLs – this of course is related to the less risky environment that we have in other Latin America countries other than Brazil. In Brazil we have a small increase of 10 basis points, 4.4 to 4.5, leading the total also to a 10 bps increase, 3.5 to 3.6.

On the lower part of this page we see Brazil only, 90-day, so the breakdown by segment. For individuals we see a small reduction, from 6% to 5.9%, showing in our view that we are probably approaching the end of this cycle of increasing NPLs. We believe that this should occur probably between the end of this year and the 1st half of next year.

For SMEs we see a relevant increase here, from 5.6 to 6%. This is a segment that is suffering a little bit more than other segments, but here we have also an effect related to the reduction of the portfolio itself. So the denominator here has decrease. In a stable portfolio we would have had a 10 bps increase only.

For corporate we see a small increase from 1.5 to 1.6.

Moving to page 13 the 15 to 90 day NPL ratio – and here is Brazil only –, we have here some technical limitations to have the CorpBanca operations, so we are focusing here on Brazil only. We see stability for individuals, a small increase for SMEs and a very relevant increase on the corporate NPLs. This is totally due to a particular case that is already 100% provisioned, but became overdue in this quarter, and this had no effect on the bottom line. But this overdue will roll out to the 90 day NPL next quarter, so we should expect a relevant increase on the 90 day NPL for corporate next quarter. But again, without any impact on the bottom line, any impact on the provisions, given the fact that it's already 100% provisioned. In Brazil, as you may know, we are only allowed to write-off a transaction 180 days after its registered as… it's 100% provisioned. So, by the way, in the last quarter of this year this particular transaction will be in the write-off portfolio, so this increase will come back, NPLs will come back in the last quarter.

Going to page 14 we have here the NPL 90 day excluding fully provisioned credits, we see stability – and this is Brazil only –, we see stability in the individuals' portfolio around 2.3% and some increase for companies from 0.9% to 1.1%.

On the lower part of this page we see the NPL creation, where we can observe a nominal reduction for retail, for wholesale and for the total portfolio. So we believe this is a positive information.

The ratio between NPL creation loan portfolio for the wholesale showed a reduction from 0.9% to 0.7%, and this NPL creation, given what we explained about this specific transaction, will go up substantially in the next quarter. Again, without any impact on the PNL.

On page 15, talking about renegotiated loan operations, here it's important to mention that the figures … previous figures, so before this quarter, do not include CorpBanca. So this increase of R$ 1.4 billion in the renegotiated loan portfolio, out of this R$ 1.4 billion, R$ 1 billion is related simply to the fact that we are incorporating CorpBanca in those figures. So Brazil, as we highlight here, shows a R$ 400 million increase.

On the lower part of this page we see the 90 day NPL coverage for renegotiated loan operations. So, quite high, at 210%. This figure will go down on the next quarter, again for the same reason, this particular transaction that will go to the 90-day overdue range.

Next page, page 16, provision for loan losses by segment. We saw some increase in the retail portfolio, a relevant decrease in wholesale and also, on the total, a substantial reduction.

Looking forward, we expect to see some increase both in the retail and the wholesale provisions, so above the level that we saw in this quarter. But in any case, below what we saw in the 1$^{st}$ quarter that we believe to be the peak in terms of total provisions and the peak for wholesale.

Going to next page, coverage ratio 90 day NPL, we see what we believe to be very sound figures, so reaching 250%, so increase in the total coverage ratio, not only in consolidated, but also in Brazil. This shall go down in the next quarters because, particularly related to this particular transaction that I mentioned several times.

Going to page 18, here again this new way of presenting the breakdown of allowance for loan losses by type of risk. So we saw some migration from the potential to the aggravated because we had anticipated some provisions, particularly in the wholesale segment.

I would also call your attention to the green part on the bottom, in the overdue part of this chart, substantial amount is fully provisioned.

Next page is the same chart, now on the consolidated figures. And here just to mention that CorpBanca are fully included in the wholesale. Here we have some limitations, we are, for the time being, including everything in wholesale.

Moving to page 20, provision for loan losses and NPL creation by segment, we see on the top the retail line consistently above 100%, reasonably stable. The nominal NPL creation, here again, showing a reduction from previous quarter. Wholesale is more volatile by nature, a very high 146% figure, and we can see here clearly that we have anticipated provisions both in the 1st quarter and this quarter, so we shall see this coverage going down probably below 100% in the next quarter. Again here related to this specific and relevant case that I mentioned several times and, again, that's already fully provisioned. And the total on the bottom, a sound 119% ratio.

Going to page 21, commissions and fees and insurance, I believe that we had a particularly strong quarter in this respect. Again there is some seasonality, the 1st quarter tends to be weaker, but even so, was a strong quarter.

When we look at 12-month evolution we see 71%, still below inflation, but we can see that one particular line showed a negative… the only one that showed a negative behavior is credit operations and guarantees, and this, of course, is directly related to the reduction of credit operations.

Moving to page 22, will showed here a 4.6 increase on our non-interest expenses or 6.7 if we exclude operations above. It's a high figure, but here again we have a strong seasonality element. So I believe that's more appropriate to look at the 12-month growth figure, that's 4.6%; so well below Brazilian inflation and this is, as you are going to see, we are very confident that we will be able to grow expenses well below inflation as we are going to talk more on the guidance.

On the bottom part of this page, on the right side, just quickly mention that we continue the process of migrating physical branches to digital branches, basically responding to our clients' needs.

On page 23 the efficiency ratio, basically stable, both at consolidated and the Brazilian levels.

Moving to page 24, I'd like to call your attention to the very strong figure in terms of capital measured as CT-1 fully loaded, so anticipating the schedule of Basel, 13.2%. So after CorpBanca, this is related to the good profit generation that we had in this quarter, is related also to an increased use of tax credits that is partially due to the FX behavior, we had a 10% appreciation in this quarter, and finally to the low or no-growth of our credit portfolio.

Moving to page 25, we had some changes in our 2016 forecast. I'd like to highlight here that, on a consolidated basis, the previous and the reviewed forecast are not directly comparable because the reviewed incorporates CorpBanca. So, for instance, when we see in the provision for loan losses a nominal increase in the range from 22 to 25, to 23 to 26 this reflects simply the fact that we are incorporating CorpBanca provisions.

We had a substantial change in the total credit portfolio growth, and this is to a large extent due to the fact that the previous forecast was related to very different expectation for FX. So we had R$ 4.5 at the end of this year, we changed to R$ 3.25, and the same is true in relation to the Brazilian GDP expectation. So the scenario turned to be worse than when we built our previous expectation, so the combination of FX and GDP explains a substantial part of this change.

In terms of financial margins, we had also a reduction here. Here again there is an impact of FX. We are keeping our provision for loan losses forecast, we are very comfortable with this range R$ 21 to R$ 24 billion. Same is true for commissions and fees and insurance, keeping the 4.5% to 7.5% range, and we are improving here the noninterest expenses range, so the new one from 2.5% to 5.5%. We believe the combination of those changes are positive in the total results.

Going to page 26, just to mention that we announced this week a bonus in shares of 10%; following a practice that we had in previous years. This will have to be still approved by shareholders and a general meeting that will be called, and also to mention that we have kept the monthly dividends value at R$ 0,015, so representing a 10% increase in the monthly remuneration.

So with that I conclude my presentation and, of course Marcelo Kopel and myself are ready to answer your questions. Thank 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 Mario Pierry, Bank of America Merrill Lynch.

**Mario Pierry:** Good morning everybody. Congratulations on the results. Let me ask you 2 questions, please. The first one has to do with your effective tax rate. You are paying an effective tax rate in the first half of this year of 25%, last year you were paying close to 30%. So I wanted to understand if, you know, your ability to pay an effective tax rate so much lower than the corporate tax rate – right now the corporate tax rate was essentially increased to 45% basically. So in the Portuguese call you mentioned that you do expect a tax rate of 27% to 28% this year, so if you could help us understand how you are able to maintain such a low tax rate, and if you have any guidance for next year? And then I'll ask you my second question later.

**Eduardo Vassimon:** Good morning, Mario. The reason to have an effective tax rating below the corporate one is basically two the reasons. The most relevant one is interest on capital, that represents a substantial part of this reduction, you may know that we had an increase in the TJLP, TJLP rate, that's the rate that is applied to the net worth to calculate the deduction; and the second factor is the results coming from nonfinancial companies. So those are the two elements. And, yes, as I think I briefly mentioned, for the whole year of 2016 we are forecasting something between 27% and 28%. For next year is still too early to say.

**Mario Pierry:** Okay, that's clear. And then second question is related to your excess reserves, right. You used about R$700 million this quarter, but your excess reserves still totaled around R$10 billion. Historically or at least in the previous few years you were running over excess reserves of about 5 to R$6 billion. So the question is how should we think about your excess reserves, your ability to continue to draw this down as the economy starts to improve? I think there is a lot of evidence that the economy is starting to bottom here in Brazil. So would this be a source of potential earnings, tailwinds for you going forward?

**Eduardo Vassimon:** Our, what you call, “excess reserves” we see this as potential, provisions for potential losses and we have a dynamic process of setting the level of potentials, provision for potential losses. Yes, we had a net reduction of around R$700 million, as you mentioned, and this is the result of a transfer from what we call “excess provisions”, complementary allowance to a regulatory one, because we had anticipated in previous quarters provisions that somehow materialized this quarter. So looking forward, I mean, again this is a dynamic process, we have our models, we have our judgment, but even if we do not change the level of “excess reserves”, as you call them, we are very comfortable with the level of provisions that we are indicating in the range, and seeing from today our best estimate is the midpoint for that.

In terms of the whole economy, I agree that we might be approaching the bottom. Of course, in this assessment we are considering that we are going to see further stabilization in the political scenario and some relevant improvements in the fiscal situation, until the end of this year this should be discussed in the Congress. So in this scenario, we expect the economy to grow around 1% next year. We know that some analysts have higher figures, 1.5%, 2%. So in this more constructive scenario, I think we should, it wouldn't be a surprise if we do not increase our provisions next year.

**Mario Pierry:** Okay. Just to be clear, so what you said at the end so you think that provisions next year they should stay stable, or they shouldn't increase next year, correct?

**Eduardo Vassimon:** Yes, in this scenario I believe they should not increase, what means it could be either flat or lower.

**Mario Pierry:** Okay, thank you very much.

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

**Tito Labarta:** Hi good morning and thanks for the call. A couple of questions also. One I guess following up on the question on excess reserves, just to clarify. That did not go through the income statements? I just wanted to make sure, so the forecast or the guidance you are giving for provision expenses this year does not include the use of excess reserve. I just wanted to clarify that from an accounting perspective. And then I have a 2nd question on insurance, which I’m going to ask afterwards.

**Marcelo Kopel:** Hi Tito, it's Marcelo. On the use of excess reserves, the way we see it is we have in the potential allowance sectors flagged with potential names that could be comprising in those particular sectors as potential risks. As they materialize, there could be a transfer from potential into aggravated risks, and that's how it took place in this quarter. Nevertheless, to the extent we feel that we have more potential risks, the net of this could be zero because you’re basically keeping the provision flat by having other names added to that or other sectors added to that, okay? So that's how we see it. So to the extent we feel comfortable with the provision level, it is a transfer. Otherwise it's a transfer with the replenishment of the provision, and that is incorporated in our guidance.

**Tito Labarta:** Okay, so you would offset any additional, any provisions with the potential use of excess reserves and that's what you're saying, correct?

**Marcelo Kopel:** If they are in the base case, in the base case we have, yes. If they are not contemplated, you know, you would see additional buildups and this is included in our guidance.

**Tito Labarta:** Okay, thanks. That's very helpful. And then my 2nd question is on insurance, it’s also nonrecurring charge here from the liability test around R$140 million. So I just wanted to understand, is that's something it's nonrecurring here, but could that be something that happens again, particularly I think with rates movements in interest rates? I just wanted to get a little bit more color on the liability at out of test.

**Marcelo Kopel:** Tito, we do that test twice a year. The last test we did, if I'm not mistaken, was at the end of last year and it was a positive amount, also shown under the nonrecurring, and the way we see it is every time we run the test, you know, in this scenario you provided that rates are going down, there could be the case depending on the dynamics of the portfolio that this could be a negative amount or not, but the fact is that we will flag that and present that as a nonrecurring item.

**Tito Labarta:** Okay, so the next tests would be in the fourth quarter?

**Marcelo Kopel:** Yes!

**Tito Labarta:** Okay, and that would also be, any movements would also continue to be nonrecurring in that?

**Marcelo Kopel:** Yeah, and you would be able to see it.

**Tito Labarta:** Okay, great, that's very helpful. Thank you.

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

**Carlos Macedo:** Hi guys, good morning, thanks. Two questions. First is a little bit broader question on capital, I mean, you are at 14.1 fully loaded and this is assuming now until you get the 2019 you're going to accumulate more capital, at least because of the growth in the short term.

So three things come out of this, either you expect long growth to accelerate very quickly; or, two, you think that asset quality will take a precipitant note and then, you know, put some pressure on your capital despite all the excess provisions you have; or, three, you are gearing to make some acquisition that will dilute capital. I mean, is this a strategy for capital here? 14.1 is well above anybody else in the industry, and it's probably well above, I mean, I remember asking Roberto at the end of the year and he said that he wanted to run the bank at 12. What's the plan for this excess capital? Dividends, capital reduction, saving up for any day? I mean, what's the plan?

Your second question I'll ask once we are done here. It's about the guidance for and how to understand CorpBanca.

**Eduardo Vassimon:** Good morning Carlos, that's Vassimon. We see 12% as the minimum level to run the bank considering that we are on a, operating basically on a noninvestment grade country, so I believe that it's important to have a higher level of capital. Yes, we are now at a well above that. It has some volatility that as you, I mean, you know it's related partially to the level of FX because of the impact on tax credit, so we'd like to see more stability on this level. We do expect some growth on the credit portfolio, but definitely not a substantial one. We expect to grow a little bit our portfolio in real terms next year. We are basically forecasting inflation around 5%, plus 1% GDP growth. So, we are expecting to have in the base scenario a growth that goes a little bit above 6%.

Of course, we'll always look at opportunities of acquisitions. In Latin America we are presently very focused on the integration of CorpBanca and if there are no opportunities in terms of investment, if the credit growth is not relevant we are going to most probably keep our dividend policy of distributing between 30% and 35%, and we could consider in this scenario being more aggressive in buybacks.

**Carlos Macedo:** Okay, and that's because, you know, just following up here Vassimon, I mean, you are going to add probably another 50 basis points till the end of the year in capital, even if the real were to go to 4. You're basically net at 14.1. Are buybacks really going to make a dent? I mean, how can you deploy all that capital in the near term? Even if you're growing real terms next year you're talking, you know, maybe 1% or 2%. It's still not sufficient with your, you're doing 16%, 17% ROE.

**Eduardo Vassimon:** Yeah, we, as you may recall, last year we had around 2% of the free float we bought back of the shares, so we are prepared if we feel comfortable, if there are no other use of capital to have a more aggressive behavior in this respect. We are not considering at this point changing our dividends policy and, I mean, we might see opportunities in terms of acquisition. We are going to follow this to see a more stable environment in terms of capital and then we will act to avoid keeping an excess capital for a long period.

**Carlos Macedo:** Thank you, thank you. So just going back to the guidance, I mean, you're preparing the guidance including CorpBanca for prior periods. Should we look at Brazil guidance in a standalone basis to understand what the trends, if there are any changes to trends that we expect for the year? I mean, particularly for expenses and fees.

**Marcelo Kopel:** Yeah, you should look at Brazil on a standalone basis because I'll give you a few examples here. The increase in loan loss reserve that went up from 22 to 25, 23 to 26 is primarily due to CorpBanca. The fees lines, for example, Brazil's kept flat and the change we have is primarily related to FX movement that makes our revenues from abroad be worth less reais. Same thing applies to expenses, Brazil we are streaming its expenses and the overall number is also being affected by the effect of Brazil and the FX on the operations abroad.

**Carlos Macedo:** Okay, so…

**Marcelo Kopel:** Sorry, go ahead.

**Carlos Macedo:** Go ahead, sorry. I was just going to ask if on the provision for the loan losses the 23 to 26 that is a reviewed guidance, it includes the first quarter for CorpBanca as well, right?

**Marcelo Kopel:** Yes. Yes, it's in the proxy. It's the numbers turn out to be comparable. They are made to be comparable, the 23 to 26.

**Carlos Macedo:** Okay. Okay, thank you.

**Operator:** The next question comes from Jason Mollin, Scotia Bank.

**Jason Mollin:** Hello everyone. My first question is about the bank's disclosure on the impact of the impairment of securities on financial margin. Can you give us a little more color around the impairments taken this quarter and the expectation for more impairments in the future?

And my second question is on nonperforming loans and the impact of loan portfolio sales in the quarter. If you can talk about if that impact was significant and the decision the bank makes to sell portfolios or what's going on in that market place today? Thank you.

**Eduardo Vassimon:** Good morning, Jason. As to impairments, we had some cases, corporate names with a concentration on one particular name, so it's a company where we had a security held to maturity and, in our judgment, it does represent a definitive loss. So, that's why we had this impairment. Looking forward, this might happen again, it's part of the business. This particular quarter was larger than historical levels, but in any case, it's incorporated in our margin guidance.

As to the sale, our transfer or financial assets we have a detailed explanation in our MD&A on page 19, and there was absolutely no relevant effect on the bottom line. Most of the sale of assets was completely written down portfolios, so zero effect on bottom line, and we have a small effect on the portfolio of only R$26 million, so completely irrelevant on the bottom line. Looking forward, we are going to continue to sell portfolios when we believe that the sale of the portfolio would produce better opportunities for recovery than would have making the collection internally. And I'd like to highlight the fact that we bought in the end of last year a company called Recovery here in Brazil that is specialized in recovering assets, so it is controlled by the bank.

We have sold in this particular second quarter R$5 billion of completely provision portfolio already written down, written-off, and we intended to increase this activity because historically Recovery has a better performance than our, let's say, internal collection area.

**Jason Mollin:** Thank you very much. Disclosure is very helpful.

**Operator:** The next question comes from Jorge Kuri, Morgan Stanley.

**Jorge Kuri:** Hi, good morning everyone. I have two questions. The first one is, can you give us an assessment of the leverage level and the health and the outlook for recovery of the corporate and the consumer sector? You know, how long you think it's going to take for it to repair? And what does this mean for credit recovery? Vassimon mentioned 2017 is probably not going to be a year with a strong growth in real terms, I think you said, 1 or 2% real credit growth next year. So where are we in that repair process of consumers and corporates? And when do you think we could potentially see a recovery? Is it 2018, is it 2019? And I'll ask my second question later. Thank you.

**Eduardo Vassimon:** Good morning Jorge. Of course, given the still challenging environment it's difficult to look much ahead of next year, but in the base scenario we see, as I mentioned, you recalled a small, but real growth of the portfolio next year and we could have a more relevant growth on 2018. We are seeing a better behavior in terms of NPLs and possibility of reducing provisions in the individuals' portfolio, that has been more, let's say, predictable, more stable and probably would peak a little bit earlier than the corporate or the company portfolio. I think that more relevant recoveries will probably have to wait until 2018 and not next year.

**Jorge Kuri:** But is it a matter of, thanks Vassimon for answer. Is it a matter basically of NPLs you're getting comfortable with that and then, you know, opening the pipes? Or is it a matter of seeing better leverage levels at the consumers' level of that service ratio where you think the consumer has to be in order for it to continue to take credit again thinking for the corporates, you know, net debt to Ebitda remains very high? Is there a number? Or is it GDP growth? You know, how do you think about and how can you help us understand, you know, what are the triggers for you to see stronger credit growth? That's what I was looking for.

**Eduardo Vassimon:** Okay, I think the basic indicators here are indicators related to GDP. Of course as we get more comfortable in the macro environment – and here I think it's important to mention that the fiscal stabilization is relevant, I think by approving fiscal measure in the second half of this year the government would give us strong signal of potential stabilization of debt to GDP ratio – is something that we are following closely. The growth of the portfolio is related to both the increase in demand and our own comfort with the whole environment. We are starting to see a better sign in terms of confidence, industry for instance seems to have bottomed in terms of activity, inventories are going down, so it's a lot of indicators of that we are following.

In terms of leverage of individuals, we are seeing a reasonable level. No relevant increase, particularly in the clients, in our own clients that we have more information. So it's a, there are several indications, but all related to some extent to the GDP. So the combination of higher credit demand that will come in our view from increase in confidence and not-so-tight credit criteria will allow us to have this growth in terms of credit portfolio. But again, nothing particularly substantial next year, but we could have a much better environment in 2018.

In terms of NPLs, just to emphasize that we are going to see a relevant increase in NPLs all for corporates next year because of this specific case that will roll out, next quarter, sorry, that will roll out to the 90-day overdue range.

**Jorge Kuri:** Thank you. So my second question – and thanks for that – my 2nd question is on car lending. You know, that's an area where if I look at the last 5 years, you know, almost 60% of the market share you lost of lending in Brazil, what is explained by moving out of the car loan business. What is the appetite for returning to that business? Is it just, you know, structurally broken business that we are not going to see Itaú moving to for the foreseeable future? Or if it's more of a cyclical issue and, you know, we could potentially see you coming back to it say 2018? You know, again, I think that's where probably the biggest market share opportunity is on the rebound, but wondering if that something that is broken or not.

**Eduardo Vassimon:** Here, Jorge, of course market share is important, but we are basically driven by the expectation of the bottom line and looking to reach the ideal balance between top line and provisions. Yes, we have lost a lot of market share, particularly in this car loan business. We don't believe by all means that it's a broken business, but it's important to remember that the business as a whole shrunk dramatically, I mean, we had at some point a couple of years ago a production of around 3.5 million cars per year; we are down to below 2 million cars, so the market as a whole shrunk. And the combination of top line and the provisions, I mean, the economics of this line of business was not particularly interesting in our view, so we have reduced dramatically. We are ready to grow when we feel comfortable again. But I don't see frankly speaking any relevant growth in this particular line of business this year or next year.

In other lines I think we could be a little bit more optimistic and, again I believe that we are in a very privileged position in the Brazilian market to grow portfolio, and there is demand, when we feel comfortable given our level of capital.

**Jorge Kuri:** Thank you. Thanks for the detailed answers.

**Operator:** The next question comes from Nicholas Riva, Citi.

**Nicholas Riva:** Thanks Eduardo, Marcelo, for taking my questions. The first one is on the net interest margin. So if I look at your guidance for loan growth, the midpoint of the guidance for loan growth implies 1% quarter on quarter long growth in the third and fourth quarter. However, if I look at your guidance for net interest income with clients the midpoint implies about 4% quarter on quarter growth in the next two quarters. Now, I know that you probably won't have again the impairment, the R$540 million – and that should help –, but besides that, what should drive that expansion in the net interest margin with clients in the second half? And if you expect spreads maybe to continue going up on less competition from the government banks.

And the second question on NPLs, but specifically on consumer NPLs because your NPL ratio for the consumer loan book went down improved for the first time since the first quarter 2015. And you are already said that in the case of corporate loan book we will see the increase in NPLs in the third quarter because of this is specific corporate. However, in the case of consumer, do you think that we could be, that probably we are passed already the peak in NPLs for the consumer loan book? Thanks.

**Marcelo Kopel:** Hi Nicholas. Let's start with the NPLs and then we go back to the NII question. On NPLs, it's a fact that we did see a reduction of 10 basis points here, but as we see an employment still going up, we will still see NPLs for consumers going up in a controlled way. As Vassimon mentioned before, the peak for that will probably be somewhere in the first half of 2017, therefore, you know, we expect it to go up in a controlled way.

Regarding NII, when you adjust for the impairment and back out the impairment the implicit increase is somewhere around 2% per quarter, okay? So we think it's doable, it will probably come through the pricing, you know, that reflects the risk in the market, and that's basically how we built the view for the 2nd half of the year.

**Eduardo Vassimon:** This is Vassimon, just to add here that we are seeing repricing opportunities in a level slightly better than we anticipated. So this I think will help us to reach the levels that Kopel mentioned.

**Nicholas Riva:** Okay, thanks.

**Operator:** Our next question comes from Olavo Arthuzo, Banco Safra.

**Olavo Arthuzo:** Hi everyone, thank you for taking my question. Actually, my question is related to provision charges. We saw along 2015 that credit recoveries were coming at a level and then dropped at the beginning of 2016 when many problems have worsened. And now with the expected signs of improvement in the economic scenario for 2017, what is the amount of level of credit recovery the bank is expecting for the next year, which should help to reduce provision expenses and be other variable that should improve the earnings growth? Thank you.

**Marcelo Kopel:** Hi Olavo, it's Marcelo. At this stage we haven't really done any exercise for 17, but what we can anticipate is, it's a cycle that we go through and 17 shouldn't be a year that you would see a material difference in the recovery levels. You know, as I mentioned, the unemployment is still going up this year, and our forecast for this year is to end the year at 12.5% and next year at 13%, therefore, the recovery should probably accelerate more not in 17, but beyond that.

**Olavo Arthuzo:** Okay, that was very helpful, thank you.

**Operator:** The next question comes from Philip Finch, UBS.

**Philip Finch:** Good afternoon gentlemen, thank you for the presentation. I have two questions, please. First, can you remind us how your position for falling interest rates and remind us the sensitivity to margins for every 100 bases in the Selic whether there are ways to offset this and the time like it's clear for the impact to filter through?

And my second question is regarding your digital banking strategy. So, on slide 22 you show how you are switching away from traditional brick-and-mortar branches to alternative digital distribution channels. Can you share with us how much more scope there is for branch closure? And what sort of cost savings can you generate from this? And more generally from the move towards digitalization. Thank you.

**Eduardo Vassimon:** Hi Phillip. In terms of sensitive to interest rates, I think it's important to segregate the margin with clients and margin with markets. Margin with clients is basically related to credit spreads, and this tend to be reasonable stable, not directly related to the nominal level of interest rate. Of course, in our environment of lower interest rates – meaning that the whole environment is more positive – you would have lower spreads, but as a result of lower risk. So, the risk adjustment margin, the risk adjustment spread should be reasonably stable over time.

When it comes to the margin with the market, then we could have some effect of the reduction in interest rates, in our banking book. This this an active management that we do in our one capital, in our liquidity, but this would be felt over time. Just to mention that given the recent communication of Brazilian Central Bank, we now believe that interest rates should drop by 75 basis points this year in the last quarter, and in the base economic scenario additional 250 bases during 2017.

So we would have some impact on the margins with the market, but the whole environmental would, in this case, be more favorable and this environment we should have some credit growth and reduction in risk.

Going to the second question of digital bank strategy, the digital branches have basically two advantages. I mean, it's a more intelligent and more friendly way of interacting with our customers, customers are going less and less to physical branches, and so it's not only more convenient to the clients, but it's more efficient to the bank in terms of costs. This is in our view an ongoing process, I mean, the rhythm of migration would follow our clients' demand and of course our own ability to implement this change in terms of IT. We have closed about 150 branches last year, we expect to have the same rhythm this year. So this is something that will be felt over time, but we are very confident that this is a reversible process.

And typically what we do is, we observe a reduction in the flow of clients to physical branches and then we merge to physical branches, so and we migrate clients to digital branches. And we are going in the near future, in this quarter still, we are going to start opening digital accounts on a digital way, let's say, on a remote way because today what we call "digital accounts" or "digital bank" is basically the migration from clients that were originated in the physical branches and now migrates to digital ones. And of course we will keep this process, but we will also start to originate, let's say, pure digital clients. So clients will be able to open accounts without going to the bank. This is a new legislation that was released by Brazilian Central Bank couple of months ago and we shall be ready soon to run this type of account as well.

**Philip Finch:** All right, thank you. That's very comprehensive. Thank you.

**Operator:** The next question comes from Victor Galliano, Barclays.

**Victor Galliano:** Hi, thank you. Yes, couple of questions for me. Just on the credit quality – continuing that – you've given us your indication or your thoughts as to where and when potentially we could see a peaking in the consumer cycle. What are your feelings with regards to SME and corporate? I understand that may be a bit harder to call, but I would imagine that we are thinking in those terms that it might black the individual peak. But I'd love to hear your thoughts on that. And in particular with SME, which looks more trouble.

And my other question is on Rede. If you could just to talk to us little bit about the lost market share there. What's you know, what's driving that? Is it more aggressive competition from Santander acquiring from Cielo? And in terms of your strategy there, are you willing to give up market share in order to retain profitability? Is that the game that's being played there? Thank you.

**Eduardo Vassimon:** Good morning Victor, it's Vassimon. As to credit quality, yes, we are probably going to see the peak of NPLs for individuals earlier than for SMEs and corporate. It's hard to say how earlier it would be, but SME is a segment that is suffering a little bit more, we have tightened our credit particularly in this segment, we have a reduced our portfolio, but the peak should be a little bit later than for individuals. For corporate it's even harder to say because corporate depends of course on some specific case. We have the impression that we have mapped the, let's say, the potential cases and we are provisioned already for those potential cases. But of course, by the nature of the business there is always the risk of some surprise. But we haven't seen any new relevant case, let's say, in the past quarters. So I think the potential problems are basically none. But corporate should recover also a little bit on a slower rhythm than individuals.

As to Rede, I will pass on to Marcelo.

**Marcelo Kopel:** Well, Victor, the strategy at Rede is really to work differentiating ourselves with products and services, and not go after price. For us share is important, but most important is profitable market share, and not simply going after very large clients that obviously can dilute your fixed cost base, our fixed cost base, but not necessarily aggregate to the profitability of our company. So, yes, we are focused on keeping share, okay? But in profitable segments. Therefore, you know, we just released a specific product that caters for one specific segment of the market, or a group of clients that want to have, they want to know up front how much they are going to pay for the usage of the terminals including rent and the MDRs and all, anything that could be charged to them. So that is a specific demand from clients that we are, you know, basically offering them the solution for it. So this is how we intend to grow the client base. Not through pricing.

**Victor Galliano:** Okay, so it's offering a more broader solution really and kind of cross sell as much as you can really…

**Marcelo Kopel:** Yes.

**Victor Galliano:** … and not in terms of direct price competition with the others. Thank you.

**Marcelo Kopel:** Right, because, you know, price competition we know where it ends.

**Victor Galliano:** Yeah. Thanks.

**Operator:** The next question comes from Carlos Gomez, HSBC.

**Carlos Gomez:** Hello, good morning. Two questions. The first one on provisions. You have typically given guidance in absolute numbers, 21 to 24 billion in Brazil for this year, and you have saying in the conference call that you don't expect provisions to be higher next year and this year. Are you referring to that in terms of absolutes? I mean, 21 to 24 billion? Or that's all relative, as a percentage of the portfolio since the portfolio is going to be smaller?

And the second question refers also to your growth rate. You have said that you expect small but positive real growth rates next year, that's around 6%. Right now, if our numbers are correct, your real portfolio is declining at the rate of 7% year on year, so that would be pretty weak swing. Have you seen any evidence so far that demand is turning around and will start to stabilize before it grows 26%? Thank you.

**Marcelo Kopel:** Hi Carlos. Let's start with the growth rate. What we are seeing is if we strip out the effects component and put things in context, there is demand that is basically sitting on the sidelines waiting for the scenario to be more clear and have more visibility in the scenario. So one could argue that in the fourth quarter after we see certain things approved in the economy and even on the bigger picture scenario, we will see demand coming back, and this will be basically through investments and things like that. Consumption will not accelerate and the leverage is still here with the consumers, it has not increased, as Vassimon said, but people are very, they are still postponing their consumption decisions. Therefore, the resuming credit growth will come more from investments than from consumption. So this is one thing.

On your comment regarding provisions in absolute terms, they are coming from a very severe year in terms of provisions. When you put 2015 and 2016 altogether the accumulated growth in loan loss reserves net of recovery is more than 80%, okay? So, saying that we don't see room to grow in 2017 talks to the accumulation of two years where we are being consistently increasing provisions and you could see specifically on the corporate portfolio we are running probably at three times the level we run historically on this portfolio. So I think it comes together with the context not only of 2016, but also what we had been doing before that.

So I don't know if that, so that's why we're giving the guidance, you know, forecasting NPLs on the corporate portfolio is harder, especially because of the write-offs that will start to show up in the portfolio, as we, you know, are fully provisioned in a very large number of cases. So I don't know if that answers or you want to follow-up on that.

**Carlos Gomez:** Well, adjusted NPLs will continue to rise and that's totally understandable and you have explained it very clearly. It's actually, on the other side, you have already provisioned a lot last year and this year, so actually I would expect your provisions to decline next year, not just to be stable at elevated levels that we've seen in 15 and 16. I see that you are not saying that yet, you are being conservative about it, so I wanted to see if there is any specific reason for you to expect still this elevated level given that you expect also a recovery in demand and activity.

**Marcelo Kopel:** I think Carlos we say that, when Vassimon said that provisions will not go up, it doesn't mean that they cannot go down. That's one thing. And the second thing is as we start going up the portfolio, okay, just the fact that you don't grow provisions implicitly you are diluting your provisions, right? Because as a percentage of the portfolio, you know, if the math works you are going to be diluting your percentage over the, the cost of credit over your portfolio.

**Carlos Gomez:** Okay, but again, at this point you are not. You could, but you are not saying that you will reduce your provisions next year.

**Marcelo Kopel:** Yes, it's too early. We are probably going to have better visibility, as I said, the whole scenario for next year is heavily depending on certain approvals in the Congress, and as we go through that threshold, you know, visibility will be much better.

So we will probably… you know, hopefully we are going to be talking about that with more visibility during the course of the third quarter.

**Carlos Gomez:** Thank you very much.

**Operator:** Our next question comes from Pedro Fonseca, Haitong.

**Pedro Fonseca:** Hi, good afternoon. I have one question left. It looks to me – it is my understanding – that the Central Bank is now taking a closer look at provision requirements for bank guarantees. Do you envisage any sort of impact in terms of requirements you may have to do in terms of bank guarantees or off balance sheet items?

**Eduardo Vassimon:** Good morning, Pedro. You are right. Last week Central Bank announced new rules for provisioning, for guarantees. In our case we had already provisioned this in our complimentary allowance, so there will be no impacts for us given the fact that we had already been provisioning for this type of risk. Of course, it's a lower type of risk because in our case it's mainly related to fiscal guarantees that have a very low level of losses. But in any case, we have already provisioned, so there will be no impact in our balance sheet.

**Pedro Fonseca:** Thank you very much.

**Operator:** This concludes today's question-and-answer session. Mr. Eduardo Vassimon, at this time you may proceed with your closing statements.

**Eduardo Vassimon:** So, thank you for your attention. I'd just like to emphasize that we believe this was a good quarter, with solid results. We are starting to see better concrete signs in terms of improvements of the economic environment, so we believe that we should be approaching the end of this credit cycle; we see a better dynamic, reduction of the rhythm of potential losses. We continue to emphasize the generation of fees that represent a very relevant part of our bottom line, we continue to be very focused on cost control, and we are very well capitalized and I believe in a privileged position both in terms of capital and liquidity to take advantage of a change in the cycle when the conditions are there. So again, thank you for your attention.

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