



Itaú Unibanco Holding
International Conference Call
2014 - Second Quarter Results

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Operator: Good morning ladies and gentlemen, welcome to Itaú Unibanco Holding conference call to discuss 2014 second 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.itaubank.com.br/investor-relations. A slide presentation is also available on this site. The replay of this conference call will be available until August 12th by phone, on +55 11 3193-1012 or + 55 11 2820-4012 – access code 7861233#

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 and **Mr. Marcelo Kopel** Corporate Controller Director & Head of Investor Relations.

First, **Mr. Alfredo Setubal** will comment on 2014 second 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. It's a pleasure for us to be here to talk about our second quarter results. For those who are following through the slides, starting in slide #2, the highlights for the quarter. The first one is the recurring net income, almost R\$ 5 billion. We have the growth of 9.8% when we compare to the first quarter, and 33.2% compared to last year. Recurrent ROE, also a very solid number, at 23.2% (23.7%) in the quarter, it's an increase of 110 basis points compared to the first quarter of the year, and 380 basis points compared to last year. The better quality of credit, also, is very important. We achieved the lowest level ever in the history of the bank, 3.4%, due to the better mix in terms of credit, with lower risk lines growing more than others. That's the main reason for that improvement, the improvement of 10 basis points when we compare to the first quarter of this year, and 80 basis points when we compare it to last year.

Financial margin with the client, an increase of 7.1% this quarter. The total number in reais was R\$ 12.7 billion, an increase of 10.6% when we compare to the first half of 2013. This is



an important line showing that we are growing revenues here with our clients, due to more business and, of course also, with more spreads due to the reality of the economy in Brazil right now.

Financial margin with market, also a good quarter, with a total result of R\$ 881 million. It's an important increase when we compare it to the first quarter of this year of 43.6% and also, when we compare to the first half of last year, 73% almost.

Loan loss provision expenses, R\$ 4.5 billion in this quarter, an increase of 5%, due to some product lines that are increasing in terms of delinquency. But the total mix of the portfolio, the NPL was 3.4%, as I said before.

Commission and fees continue to grow. R\$ 6.3 billion in the quarter, was a good improvement in the second quarter when we compare to the first quarter and also, when we compare it to last year, with an increase of 17.8%.

Noninterest expenses, total of R\$ 9.6 billion in the quarter, an increase of 10.1% when we compare to last year. But if we not consider the acquisition of Credicard last year, by the end of last year, the total improvement, the total growth of noninterest expenses would be almost in line, a little bit above inflation, 7.1%.

All these compounded together, we saw an improvement in our efficiency ratio of 60 basis points. We achieved 47.1% in this quarter, and the risk-adjusted efficiency ratio with the NPLs and claims from insurance also improved a lot and reached 64.8%.

In the loan portfolio, the total risk, considering the private portfolio of the bank in terms of securities, the total was 10.9% when we compare it to the last year, in an improvement of 2% this quarter.

On page 3, we see the results more open. I think it is important to note here that we improved the recovery of credits written off to R\$ 1.2 billion this quarter. And also, the income from insurance, 2 points, almost R\$ 2.2 billion in the quarter with a little increase of 3.3% when we compare it to the first quarter. This result in a recurrent net income of R\$ 4.9 billion in the quarter.

We see on page 4 the financial margin with market, that we had a much better quarter this period. And we also increased our average to R\$ 628 million when we saw 12 months behind.

The ROE on page 5, 23.7%, was a very good one, I think we are in a good trend in terms of results, and the average for the last 12 months, 22.8%.

The loan portfolio continued to increase slowly because of the restrictions, more restrictions in terms of selecting the client, and also, due to the pace of the economy that is very low at this moment. But at the end, we finished with R\$ 518 billion, including, here, the corporate private securities that we held in our books of 30, almost R\$ 31 billion. So, considering these numbers, our growth in 12 months, 10.9% and 2% in the quarter. We continue the trend to reduce the risk of the loan portfolio. We continue to increase our payroll loans that achieved R\$ 30 billion, it's an increase of 21% in this quarter. This growth was impacted by the acquisition of almost R\$ 3.8 billion in this quarter of portfolio from the BMG bank. We bought



that in the JV of Itaú and BMG. This R\$ 3.8 billion, 2/3 of that was bought by the end of June, and R\$ 1 billion during the quarter. So this growth, this acquisition, most of that didn't have impact in terms of margin, in terms of revenues in this quarter. Of course, this was important in terms of growing this portfolio. As we mentioned in our material fact when we announced the JV, that, that was a possibility that the JV buying portfolio from BMG. So this put the payroll loans in a very good size of portfolio, in line with the strategy of the bank to continue to reduce the risk of the portfolio.

Vehicles continued to reduce. We have a reduction of 8% this quarter and 24, almost 25% compared to last year, the portfolio achieved R\$ 34 billion. And mortgage continued to grow R\$ 26 billion with a growth of 26% in this 12 months and 4% in this quarter.

Credicard continued to grow. Of course here, we have the influence, when we compare it to last year, because of the acquisition of the Credicard business company in December of last year.

In terms of companies, we continued to grow our corporate business. The total growth in the quarter was 2.3%. The total portfolio finished with R\$ 196 billion, in line, also, with the strategy of reduce the total risk of the portfolio. We considered the corporate loans a low delinquency business, so this is in line. And we continue to reduce the pace, the portfolio of the very small and small and middle market companies. We finished with almost R\$ 83 billion with a reduction in the quarter of 1.1% and 4% when we compare it to last year. So, the strategy continues to be the same, with reduction in some credit lines and increasing the more, more the credit lines with lower risk to our book, especially in this moment when the economy continue to show very low growth in terms of GDP.

On page 7, we see the financial margin breakdown. We see where did the growth come from in this quarter. So we started, we finished the first quarter of 2014 with R\$ 11.8 billion and finished with R\$ 12.7 billion in terms of financial margin with the client. And this difference came from R\$ 427 million because of the mix of the products, and the spread that continued to increase a little bit and it had, of course, an influence in the revolving lines of credit portfolio that we renewed this quarter.

The calendar days, we have more days, one more day in this quarter, so we have more revenues, R\$ 132 million. Selic rate operations, R\$ 105 million positive; volume of loans operations, R\$ 46 million; and R\$ 128 from several small lines that had influence, but also showed some growth. So we finished this quarter with R\$ 12.7 billion in terms of margin with, financial margin with the client, what's a good sign in terms for the future that we continue in recovering the growth of business with the client.

On page 8, we see the net interest margin reaching 11.4% in the quarter, the same level that we were one year ago, still behind and difficult to achieve the much higher levels. This was influenced by the Selic rate, of course, that increased during this period of 12 months, and the increase of spreads in the period, as I said, because of the growth of the Selic and the increase of risk in the overall economy because of the reduction of the pace of the growth.

On page 9, we can see the credit quality, 90 days NPL ratio. We continue to show improvement in this line. We finished the total consolidated number with 3.4%. Both



individuals and companies showed improvement, and we see some room yet due to the mix of our portfolio, in the coming quarters, we see some room for these numbers to have some improvement yet in the coming period. Coverage ratio finished in the same level of last quarter, 176%.

On page 10, we see the loan loss provisions expenses, 4.5% this quarter, and considering the recoveries, 3.2%, as I said, recover improved this quarter. We finished with R\$ 24.5 billion in terms of total provisions, of these, R\$ 5.2 billion is complementary, that we maintain the same level in the, for many, many quarters already.

On page 11, we see the trend of the NPL between 15 and 90 days. We can see here that the trend continued to be very positive. We improved 30 basis points in this quarter on the overall portfolio, both improvement in terms of individuals and companies, what give us confidence to believe that we will continue to have no problems in the coming quarters in terms of delinquency above 90 days. So that's a good sign and these numbers confirm these trends.

On page 12, we can see commissions and fees, and also the result from insurance business. We continued to grow the fees and commissions in this period, in terms of business, an increase of clients, number of clients and, of course, some impact here from the acquisition of Credicard in the end of 2013. The result from insurance also contribute a lot in terms of business, and the overall numbers for fees continuing to be a little bit above our estimate and in line with the strategy of growing the fees, also to reduce the impact independence of the revenues coming from, exclusively from credit operations.

On page 13, we can see our results of R\$ 4.9 billion in the quarter, recurrent net income, and we split here between the banking operation and insurance operation and excess of capital. When we see the banking operations, we can see here that from the R\$ 4.9 billion in result R\$ 4.1 billion came from the banking operations, with ROE, with the allocated capital of 23.8%, efficiency ratio of 49.9%, and risk-adjusted efficiency ratio with 67.5%. We see the insurance operations, the result was R\$ 733 million. And here, we can see how good is the operation in terms of ROE, 69.1%, almost 70% of ROE for this insurance business, efficiency ratio of 33.2%, and risk-adjusted efficiency ratio considering the claims at 63.6%. So we can see that the insurance operations has solid numbers and a very good contribution in terms of ROE and efficiency ratios.

On page 14, we have more details. As you know, the strategy of the bank here in this business is to concentrate in bancassurance. And that's the reason we announced last month that we sold to Ace the corporate, the big risks, the corporate big risk. We were leaders, but in line with the strategy of concentrating, of concentration of the insurance business in our channels, where we can directly sell products to our client, especially in terms of pension and capitalization and other related bancassurance products, we announced this selling.

61% of the revenues of our business came from traditional insurance products, it's 28% from pension plans and 11% from capitalization. We have R\$ 3.3 billion in terms of revenues, considering in these numbers the 30% participation that we have in Porto Seguro group. So the total revenues, R\$ 3.3 billion, retained claimed R\$ 979 million, selling expenses R\$ 425



million, and so these result in a net operation revenues of R\$ 1.9 billion. So the final number, R\$ 733, considering the expenses of the company, of the business, in terms of Porto Seguro and expense that we allocated to this insurance business. So as we can see, it's a very good business and contributes a lot to our bottom line.

Noninterest expenses, not considering the Credicard expenses in this year, so we can see that the noninterest expenses, the growth was 7.1%, a little bit above the inflation level. Not excluding the Credicard business that we acquired, the growth was 10.1%, in line with the expectation that we have for this year. Here we can see, also, the efficiency ratio that we continue to show improvement. And when we saw the efficiency ratio risk adjusted to the claims and to the NPLs, we see improvement, is the best number that we achieved in these two years and also an improvement in the traditional efficiency ratio, achieving 47.1%.

Capital ratio on page 16, we finished with 11%, a little bit lower than the in the beginning of the quarter, and we show here how these numbers was compounded to achieve this 11% of Basel III, considering Basel III calculation. To the, so we believe that we are in a very good position in terms of capital requirement for the coming quarters, as long as we continue to have a good results and capitalizing most of the results in our capital.

On page 17 you see the market capitalization for the bank by the end of the quarter, R\$ 174 billion, and the daily liquidity of our shares, R\$ 725 million, mostly they were divided between New York and São Paulo exchanges.

On page 18, we are keeping our expectations for this year. Total loan portfolio, probably the growth will be around 10%, maybe a little bit lower, depending on the pace of the economy for these coming month. Loan loss provisions net of recoveries, R\$ 13 billion to R\$ 15 billion, commission and fees growth of 12% to 14%. We are a little bit above these levels up to now, but we are not moving and changing the expectations at this moment. Noninterest expenses 10.5%, we are, to 12.5%, if we not considering Credicard, 5 to, 5.5% to 7.5%. Probably, we will be in line to these numbers as we saw in the, by the end of this quarter, we are 10.1% and 7%, so probably, we will be close to that numbers by the end of the year also. And efficiency ratio, an improvement of 50 basis points, to 175, I think we will also, will continue to improve the numbers and achieve this level.

And to finalize, on page 19, the large risks insurance business be announced by the beginning of last month, so to raise to, by R\$ 1.5 billion, and what we are transferring to them is the stockholder's equity of R\$ 364 million, assets of R\$ 5.8 billion, technical provisions of R\$ 4.6 billion and 323 employees. The effect when this was, is approved by the authorities, the impact pre-taxes in our net income will be R\$ 1.1 billion of this transactions.

This finishes the presentation and we now can open for questions that we probably have to answer.

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 1 key in your touch tone phone now. If at any time you would like to remove yourself from the questioning queue, press star 2.



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

Carlos Macedo: Thank you. Good morning gentlemen and congratulations for the strong results. I have a couple of questions. First, on your margins, we did see a big increase in the quarter, probably more in line with the fourth quarter than the first. We do know there's some seasonality there but given that rates have, for the time being stopped going up and the change in mix in your portfolio, what's the outlook here? Should we expect that we're going to continue to see these, the credit spreads going up? Or is it something that we are probably, you're probably going to start leveling off now towards the end of the year?

The second question is on expenses. You reported the expense growth of 10% so far, and your guidance is at the low end of your guidance, and the difference from Credicard is only 3 percentage points. Now that the big hump in expenses for the year, the nonrecurring hump, which was the World Cup is behind you, is there room for expenses to grow less than 10%, particularly given that Credicard has had a much smaller impact on your expenses than, I think you originally imagined, or at least, as this is reflected in your guidance? Thanks.

Marcelo Kopel: In terms of the margins, the way we see our NIM, we believe it will level off or be a slight variation to what the levels we are now. And the outlook for credit spreads is, it should stay where it is now when you look at on a product by product. So at the end of the day, what could actually generate variances against our numbers is truly the speed of growth between the different portfolios we have, which will, obviously, have its own impact on the NII and the NIM as well.

In terms of expense growth, you mentioned, you know, the events we had with the World Cup and so on and so forth. But our guidance already took into account the calendarization of such expenses. So, basically, what we have is upcoming in front of us, we have the bank employees' annual adjustment salary. So our guidance already takes into account the different factors that could influence the run rate of our expenses. So we are comfortable with the level of guidance we gave and we are, you know, so for the time being, we should not revise that.

Carlos Macedo: But are you, would you be more comfortable with the top end or the bottom end of the guidance, given you are at the bottom, a little at the bottom end now?

Marcelo Kopel: No, we will probably stay, we'll probably stay within the middle of that for the time being, but if we need, you know, if the third quarter comes with, let's say, better news, we would address that in our next conference.

Carlos Macedo: So, I mean, just reading through the numbers here, you would expect an acceleration in the pace of growth of expenses in the second half of the year.

Marcelo Kopel: Yes, if the business gets, goes faster, but remember, our payroll is a meaningful expense to our, in our numbers. So around 40% to 45% of our expense base is



payroll related, and we have the upcoming increase. So you would see the acceleration, just by the fact that we're going to have that adjustment, you will see an acceleration in the upcoming quarters.

Carlos Macedo: Okay, thank you.

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

Tito Labarta: Hi, good morning and thanks to the call. My question is on asset quality. I think you mentioned, maybe you could see a little bit more improvement, I just want to get a sense, because we did see some deterioration at your peers in the quarter. If you do think you can see some improvements maybe from the change in mix, how much more could it improve? And then, but also, like, when do you think that the cycle will start to change? At what point, I mean, while I understand asset quality should be under control, but at what point do you think NPLs could start picking up for your portfolio? Thank you.

Marcelo Kopel: Tito, the improvements, those would be really slight improvements. You're talking about, let's say, 10 to 15, or maybe 20 bps. And it's truly a function of how we have less risky portfolios outgrowing the riskier ones. So it's truly a much smaller, if that happens, a much smaller improvement.

In terms of further looking out for 2015, the outlook is very dependent on the macroeconomic conditions. So, we continue with our risk appetite and we will continue, let's say, fostering the growth of the secured portfolios. So you could expect corporate loans and payroll and mortgages outgrowing the other products. And if the, and if we have, let's say, better news from the economic front, you could see other portfolios accelerating, but not necessarily meaning, or actually, not meaning that we're going to change our risk appetite for those products.

Tito Labarta: Great, thank you. Maybe just one quick follow-up then. In terms of provisions, would you feel comfortable saying that you should be at the low end of the R\$ 13 billion or R\$ 15 billion guidance in provisions? And any chance you think it could be even below that?

Marcelo Kopel: No. As of what we see now, we are seeing ourselves at the low end of the guidance. Should we have, let's say, additional positive news in terms of the NPLs, this could translate into, let's say, better news on that. But as of now, we are seeing ourselves at the low end of the guidance.

Tito Labarta: Perfect. Thank you very much.

Operator: Our next question comes from Mr. Saul Martinez with JPMorgan.



Saul Martinez: Hi, guys, congratulations on the very, very strong result. I have two questions. First, it's more of, I guess, of a big picture question on earnings and ROE and profitability sustainability. You grew earnings 10%, recurring earnings, 10% sequentially off of a good first quarter, and 37%, I believe, year-on-year, your ROE, on a recurring basis, is 24%. So even if you factor in higher rates in Brazil, that's a very, very strong result. And when you talk about trends, it seems like NIMs are stabilizing, asset quality is fine, fee growth is good, you have costs under control. Doesn't seem like there are, that you're seeing too many headwinds in terms of earnings dynamics going forward. So how do you think about, you know, in the next, not necessarily medium term, but in the next 2, 3, 4 quarters, are these levels of ROEs in the 23%, 24% range, should they continue to be, are they sustainable? Because it doesn't seem like there are too many headwinds that won't allow you to sustain the profitability you generated this quarter, which was exceptionally strong.

Marcelo Kopel: For the short term, as you asked, Saul, it's something that one could expect, you know, in the neighborhood of where we are, because, let's say, the portfolio is already re-pricing and the, and given the outlook we have for the rest of the year, one could expect that level to be sustained.

When you look at longer term, then it's a different picture, because there are too many moving parts and the major moving part is truly for how long, you know, as you said, we can continue to grow, as we are growing in, with the economy at a slow pace. Remember, we've been improving, you know, our cost base, you know, for two consecutive years we grew below inflation, we collected a lot of benefits out of our reduction in terms of the risk exposure. So short term, it's doable. Longer term, we really need to reassess it against the macroeconomic backdrop.

Saul Martinez: Okay. That's fair. Second question is on your cost of risk, and I guess it's a follow up to some of the previous questions. We did see a 5% Q-on-Q increase in gross loan loss provisions, provisions to loans went up a bit. And that even includes some re classification from benefit of reclassifying from A to AA, I think, R\$ 80 million, so it would've grown a little bit faster than that. I mean, taking into consideration, obviously, the headline NPLs improved but your provisioning level is growing. Where do you see the cost of risk or provisions to loans going to in the next two to four quarters?

Marcelo Kopel: We think, so in terms of numbers, the way we see our cost of credit for the coming quarters, we see that, you know, with a slight increase, which is in line with what we guided for the year. When you look at what we guided for the year, we said, you know, cost of credit net of recoveries would be between R\$ 13 billion and R\$ 15 billion. Even with that increase, which we already forecasted, due to the portfolio dynamics, we believe we're going to be in the bottom end of the guidance. So, that is basically how we see it. So if we were forecasting that, and we expect to be in line with that. In terms of NPL creation, we had an increase in the first quarter, when you compare that with the fourth quarter, but now, we should see that, again, with a relatively stable or a slight improvement on that as well. So we are comfortable with the scenario that we guided earlier in the year.



Saul Martinez: Okay, that's very helpful, thank you Marcelo.

Operator: Our next question comes from Mr. Boris Molina with Santander.

Boris Molina: Yes, I have a, one question with your core Tier 1 Basel III fully loaded capital ratio. When you talk about the mitigation impact on your insurance business, is this exclusively related to the sale of your large insurance business, or do you plan additional divestitures or restructuring of that to improve your capital ratios? And I would have a follow-up question.

Marcelo Kopel: Boris, it's not truly related, only related to the sale of our large risk, it's basically the optimization of the capital structure. We have excess capital in our insurance companies, so by reviewing the amount of capital that we need to have in our insurance companies, and throwing it back to the parent companies, that will, by itself, optimize our capital structure, help optimize our capital structure.

Boris Molina: Does this involve moving the leasing subsidiaries, all those units that you have hanging from your insurance companies that are not properly insurance, or does it involve talking to your insurance regulator and telling him - look, we have too much capital, can we take some back? Because there seems to be an impression that there is a pressure from the regulatory front to have or keep the couple, the current levels of capital. So it's a bit puzzling to see how this is achieved.

Marcelo Kopel: Well, it's a combination of both. Actually, it's talking to regulators where it makes sense, where we have a case, where we have excess capital, and regulators are very sensitive to that. So, you know, you could, one could argue that you could have some excess capital but, you know, we have the case where we can demonstrate that there is room for us to reduce the capital base, and some of that actually was approved. So, when we say mitigating actions in progress, a part of this point eight is already being implemented as we speak, so, and part of the investments as well. So a combination of restructuring the legal entities and reducing capital is what we're talking about in those two items.

Boris Molina: Okay, wonderful, thank you. And my second question is related to the process of your acquisition or your joint venture with CorpBanca in Chile. Do have any progress update of how the completion of the deal is going ahead and the issues with the lawsuits? And also, I would like to see if you have any comments regarding the motivation for the IFC to trust and make an investment in that, I don't know how much it cost them to hire an investment bank to evaluate the deal. We believe that they do have veto power over this transaction and will you would be willing to renegotiate if they find something that they don't like in terms of the structure of the deal.



Marcelo Kopel: Yes, Boris, we're confident about the approval process of this transaction. You know, we are following up with all the regulators. As you know, there are multiple regulators involved on that, so we are following up with them and approvals are on track. We expect that to be closing by the end of this year or early next year so we are confident on that. In terms of the lawsuit, you know, we're following the legal steps on that but it's against core group. So, you know, but, again, as I said, it shouldn't affect the approval time table that we have. In terms of what you ask about IFC. IFC is a large shareholder, they have their duties and they know what they got to do. So if they ask for a, let's say, an independent opinion, it's to give them further comfort on top of all the opinions we already provided them. So, you know, we continue confident on the transaction and the benefits of this transaction to all shareholders.

Boris Molina: Wonderful, thank you.

Operator: Our next question comes from Mr. Mario Pierry with Merrill Lynch.

Mario Pierry: Hi, good morning everybody. Let me ask you two questions as well. The first question is related to your risk appetite. Clearly, right, your NPLs now are at historical lows, the competitive environment in Brazil seems to be much better, we're seeing spreads going up. So I'm more interested in knowing what would make you more excited about growing your loan portfolios? Clearly, I think that the message from Central Bank recently, in reducing reserve requirements was, they would like to see more credit in the economy. So what would make you more interested and start lending more aggressively again? And the second question is related to that, I guess. When we think about asset quality going forward, what is your biggest concern? Is it unemployment? Is it inflation? Is it the high interest rate environment? Or is it just overall weak economic growth? Thank you.

Marcelo Kopel: Mario, if we think about the economy in three large groups of clients, think about the clients we do business, and we like the credit risk we have, the profile of this group of clients, and the spreads remunerate adequately the risk we are underwriting. And these are the clients we currently do business. In the other extreme, think about the group of clients that they are too risky for our standards, and despite you can charge very large spreads, we are not interested, because they give a lot of volatility to our balance sheet, and we, even the returns could be very high, we don't do business with them. And in the middle, there is a group of clients that we like the credit risk, but the spreads were not adequate, prior to the repricing that happened in the market. As the market adjusted the prices and the spreads, and, you know, out that, we become interested again in doing business with these clients, without necessarily changing our risk appetite. So the message here is, truly, we don't, we will not change our risk appetite, but given that you have less, let's say, dispersion on the prices on the market, so there is less distortion on market prices, we could be doing business with that group of clients that we like the credit risk but we weren't doing. So net-net, risk appetite remains the same for the time being without, you know, but we could be addressing these clients.



In terms of asset quality going forward, it's really the macroeconomic backdrop that talks to all the other components that you mentioned about the level of investment, the unemployment and so on and so forth. It's, one comment that I would like to add is, the portfolio that we are growing the most, which is the payroll-deducted loan, you know, 80% of that is linked to federal, government employees and pensioners from the government, and 20% is to the private sector. So even if we have, let's say, continue to have a slow economy, the growth, let's say, the fact that we are having this portfolio outgrowing the market doesn't become a very big concern, given the profile of its borrowers. I don't know if that addresses your questions.

Mario Pierry: Yes, just going back then to what you said about, you know, some groups are too risky for you, and you're not really willing to go there, even if the spreads were higher. Also wanted to understand them from the other perspective, from the demand perspective. Do you believe that there will be demand today for you to be more aggressive? So it seems to me, from what you said, it's much more a decision that the bank is making rather than the demand being there.

Marcelo Kopel: I think, you know, what you said, it could be applicable to certain products. But for example, in vehicles, it's an industry, it's not something that is happening to us, but it's happening to the industry, there is no consumer demand for borrowings. So it doesn't, you know, even if we were willing to lend more, or we were willing to lend more, given the credit appetite we have, the demand is very soft on that particular case. So on a case-by-case basis, you know, we believe there could be something related to risk appetite but a lot related to, let's say, borrowing appetite as well.

Mario Pierry: Okay, thank you.

Operator: Our next question comes from Mr. Marcelo Telles with Credit Suisse.

Marcelo Telles: Hi, good morning, gentlemen. Congratulations on the very, very good results. I have two questions. The first one, I mean, looking at your credit margin, it extended quite a bit, you know, in the quarter, and it seems that the purchase of the payroll portfolio had a very small contribution to that, so about R\$ 130 million. So it seems that there's a real genuine, you know, increase in the spreads in the quarter. So my question is, which segments drove that? I mean, is it fair to say that revolving credit lines, you know, were the main reason behind it, and I'll believe that you still, you know, even though maybe spreads and the margin might not continue to increase from current level, we still have the re-pricing of the, let's say, longer tenure loans still, you know, affect your P&L in the coming quarters. I mean, is this a correct assessment?

And the second question is regarding, you know, the 2015, particularly with regards to the asset quality cycle. I think, I know you addressed, to some extent, that already in previous questions, but if you think about, you know, a very low economic growth environment next



year, how do you think the asset quality cycle would pay out? What will make that asset quality cycle different, let's say, next year in our low-growth economies versus, you know, the let's say, the deterioration cycle we saw, you know, from the, in 2011 and 2012? What is different today that, and if you can be specific about the actions you've taken and the sort of risk you are taking, that would be great.

Marcelo Kopel: Okay. Let's start with the last question then we'll go back to the first one, Telles. I think the main difference is the speed where we are getting, you know, we are coming from a slow economy already, and we're getting into, let's say, another year. Our GDP forecast for next year is 1.5% and for this year, it's 0.7%. So we're already getting into a year with a slow growth in our loan portfolio, which is probably different than what we saw in the past. In the past, we were coming at a much faster pace with a much different credit profile. I'm not trying to say we're not going to have any issue, we're not going to have any problems. But I'm saying that the behavior on certain products could repeat themselves of what happened in the past, but given the fact that we are now being more selective on the clients we select and the clients we do business and, also, the type of products we do business with, this time should be different. So if we have, let's say, a much higher increase in the past, now it could have an increase in the NPLs, but this should be, let's say, offsetted or partially offsetted by the type of clients we're doing business and the product types we are doing business. So I'm not discounting, let's say, something of a deterioration on the NPLs, but again, we have to really look through the speed we are getting into the next year in terms of loan growth, and the mix of clients and products.

Back to your first question about credit margin expansion, the revolving spread, also, you know, the short-term product's actually re-priced, and it's a fact, the longer-term loans, they are, they will start re-pricing as we go through quarter-by-quarter. But remember, we're still looking to foster lower-risk products. So even though you're, we are re-pricing the portfolio as they mature or, let's say, booking new loans, as we have large corporates outgrowing, you know, products that have higher spreads, this means that, you know, if one would expect NIM expansion, that would be kind of hard to see.

Marcelo Telles: But at least, we can see, at least, like, credit margin stable, right? You probably have the negative mix effect, but on the other hand, have some re-pricing. So is it possible for you to keep your credit margins stable over the next, let's say, 2 to 3 quarters?

Marcelo Kopel: I would say for the next 2 to 3 quarters, you could see a fluctuation, you could see it going down because of the mix pressure we have, but not materially down, the NIM, okay. The NII should follow the portfolio.

Marcelo Telles: Perfect. Thank you.

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



Nada Oulidi: Hi, good morning. Thank you very much for the presentation and congratulations on the very strong results. One of my questions has already been answered, and I have a couple additional ones, if I may. The first one is related to the impact of the relaxation of the macroprudential measures, the recent one, the recent relaxation of these measures by the Central Bank. In particular, in terms of your loan growth and in terms of the, your core or Common Equity Tier 1 ratio. And the second question is related to how you see the evolution, basically, of that ratio. Currently, your fully loaded Common Equity Tier 1 ratio, without these measures, is at 11%. So where should we expect that ratio going forward?

Marcelo Kopel: Thank you, Nada. If you follow me on to the presentation on page 16, that will probably help in the answer. When you talk about the relaxation of the measures, we're really talking about 10 basis points improvement in our BIS ratio. So when you look at that chart from the left bar to the far right bar, basically we put all the components here, and how we see this thing growing. You asked about the loan growth, the impact of the relaxation of the measures. We have the range of 10% to 13% loan growth and we believe this could help us achieving the low end of the loan growth, because when we provided that loan growth guidance, we basically were operating under a much higher GDP growth scenario. So the GDP has changed and we are, let's say, working towards reaching the low end of the guidance. So that doesn't change our view in terms of how we're going to be seeing our portfolio grow for the year.

In terms of the evolution, if you look at all the measures, all the actions we listed here in the chart of page 16, basically, at the end of, if we were to implement Basel III fully loaded today, with all the measures that we are already working, that means that we will have a fully loaded CET of 11%. So, it makes us, let's say, comfortable, that we are working in the right direction with the actions we are taking to manage our capital base.

Nada Oulidi: Thank you. So you, the recent relaxation of the, or the reduction of risk weighted assets in certain segments would not have, would have a 10 basis point impact on the Common Equity Tier 1 ratio in addition, to the, all the measures that you have laid out on slide 16?

Marcelo Kopel: No, it's listed here, it's the third, actually, when you start with the 11.5% of the current capital base, the third bar, impact of new rules of July '13, '14, is basically what you just mentioned.

Nada Oulidi: Thank you very much, that's clear.

Operator: Our next question comes from Carlos Gomez-Lopez with HSBC.

Carlos Gomez-Lopez: Hi, good morning. Two questions. First on the CorpBanca transaction. Can you give some update about its estimated effect on your Tier 1 capital ratio. Originally, I believe you said, I think I heard 100 basis points, and it was 30. So I would like to



know in your latest calculations, how much it can, it would impact. And second, I noticed that your investment portfolio, as you show in your report, has been essentially flat since December 2012, at about the same level. Is that part of, shall we say, limited risk appetite on the investment side? Or should we interpret it in any other way? Thank you.

Marcelo Kopel: Carlos, regarding CorpBanca, the estimated impacts on the transaction starts with something around 15 basis points going all, going to up to 50 basis points on our capital base. So that's, when it's fully in effect and fully implemented, we expect to be with 50 basis points impact on our capital base. In terms of the investment portfolio, I mean, we don't have anything special to comment about that. It's primarily being managed as we were managing it during the previous quarters.

Carlos Gomez-Lopez: Okay. And if I may add, in the past you have had, you used to have a policy of having some foreign exposure, several years ago you moved to a fully hedged balance sheet. Have you considered reviewing that policy and, perhaps, having some part of your capital in US dollars? Or you'll continue to be 100% reais?

Marcelo Kopel: We will, our policy continues to be the same and execution of the policy typically follows the policy, unless there are not, let's say, there's not enough liquidity or deepness in the market to be executing the hedge. But we continue to do that as our policy.

Carlos Gomez-Lopez: Thank you very much.

Operator: Our next question comes from Verônica Armas with LarrainVial.

Verônica Armas: Hello, thank you for the call. And, just a quick question, I was wondering if you could talk about the outlook you have for the second half of this year, maybe the first semester of the next one, about the whole banking system for Brazil regarding loan origination growth and, if you could, break it down by type of loans. Thanks.

Marcelo Kopel: The expectation is that you could have more activity in the second half of the year than we had in the earlier part of the year, and that is related to, typically second part of the year is more active than the first part of the year. And this year, in particular, because of the World Cup in Brazil, we had more holidays than the normal, which basically, let's say, could have postponed decisions from companies. So the outlook is to have, let's say, more activity than in the first quarter, but nothing that will dramatically change the pace of the economy.

Verônica Armas: Okay, great, thank you.

Operator: Ladies and gentlemen, as a reminder, if you would like to pose a question, please press star one.



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

Alfredo Setubal: Thank you everybody for participating in this conference call. I think we had a very good quarter, I think we're in a very good position to continue the trend of growing and keeping numbers in a very good rate. So I expect to, to be again with you to the conference call related to the third quarter results. Thank you.

Operator: This concludes Itaú Unibanco Holding earnings conference call for today. Thank you very much for your participation. You may now disconnect.