International Conference Call
Itaú Unibanco
2nd Quarter 2013 Earnings Results
July 31st, 2013

Operator: Good morning ladies and gentlemen, [thank you for standing by and] welcome to Itaú Unibanco Holding conference call to discuss 2Q13 earnings results.

At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session and instructions will be given at that time. If you should require assistance during the call, please press the star followed by zero. As a reminder, this conference is being recorded and broadcast live on the investor relations website at www.itau-unibanco.com/ir. A slide presentation is also available on this site. The replay of this conference call will be available by phone, on (55) 11 4688-6312 – access code 3921256 **hash tag**.

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. Rogério Calderón**, Corporate Controller & Head of Investor Relations.

First, **Mr. Alfredo Setubal** will comment on second quarter 2013 **earnings** results. Afterwards, management will be available for a question and answer session.

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

Mr. Alfredo Setubal: Hello good morning those who are in the US, in Brazil, in the American zone, good afternoon for who are in Europe. Welcome to our conference call for this 2Q. For those who are following through the Internet and through the slides we start in slide number 2 - highlights of this quarter - the first one is the result R$3.6 billion, what means an increase of 3.1% when we compare to the 1Q quarter of this year, R$7.1 billion for the whole semester.

The second point is our Recurring ROE; with this result the ROE was 19.3% a little bit higher than the 1Q, a 20 basis points even considering that we had a drop in our result from the Financial Margin with our clients in a total of R$329 million when we compare to the 1Q of this year. So this is a good operational banking result for this period considering this drop but we are going to talk more, later.

Another highlight of our performance is the credit portfolio. The growth was 2.5% in the quarter and 8% when we consider the 12 months, we continue to reduce our car finance portfolio, so we had a reduction in 12 months in this portfolio of 20%. If we disconsider this reduction our portfolio in 12 months would have grown around 12%, more in line with the financial system when we saw the data released by the Central Bank.

Financial Margin with Clients we grew 3.4%. The total in Reais was R$11.3 billion, reversing the trend of the last four quarters, I think this is important, the 1Q that we were able to grow this line and our view is the turning point that probably will continue to grow slowly this line. Most of the adjustments in our credit portfolio are done and also in terms of spread we are not seeing this spread reducing in the last months and some lines even are growing due to the economic environment in Brazil so we believe that the Financial Margin with Clients will start to grow quarter by quarter, let's see.

Financial Margin with Credits, net of loan losses provision expenses we show a growth of 7.6% in the quarter, in a total of R$6.3 billion. What is very important is that the quality of credit portfolio continues to improve, the 90-day NPL decreased again this quarter and decreased 30 basis points achieving 4.2%, what is a good level and a huge reduction when we compare to the same period of the last year, a reduction is 100 basis points, also is good to think that the NPL between 15-90 days decreased also in a very important pace 60 basis points in this quarter and 110 basis points when we consider 12 months. So I think it is good, it is good to see that our policy of reduction of the risk of the credit portfolio that we started almost or more than 18 months ago continue to show a very positive trend in terms of quality and in terms of decreasing the provision for loan loss.

Another point that is important is the banking fees; an increase of 5.4% and we achieve R$5.4 billion in the quarter. The result of our insurance operations, including pension plans and capitalizations and so on, achieved R$1.4 billion in the period, a 5.7% increase what is good and 11.2% when we consider 12 months. So our insurance operations that we manage are very good and growing also in a very good pace.

Another point is that it is part of our strategy in this last two years with control of our non-interest expenses. The growth in the period was 4.2% when we compare to the 1Q, what is signal the growth in the 2Q, and when we compare 12 months we continue to grow around 4.5% slower than inflation for this period.

If we made an adjustment of the consolidation of the Redecard more comparable with last year, we see that the growth of our expenses is 2.5%; so much lower than the growth of the inflation in the same period. And considering all this in terms of revenues, losses, claims and so on, our efficiency rate risk-adjusted ratio increased 70 basis points what is a good number in line with our expectations and our guidance.

Going to page 3 we see our results in a little bit more detail. We see here the Financial Margin with the Market with a decrease of 55% in the quarter; this is more related to the volatility of the market especially in our case related to the prefixed bonds and external bonds that we are going to show you in a coming slide, later. But we continue in a very good pace in terms of loan losses and claims. The total in the quarter was R$4.1 billion with a reduction when compared to the same, to the 1Q of this year of 5.8%, so we continue to go in line with the expectation of our expenses for this year, related to the good quality of the new loans that we provided in the last months, that we are making our credit portfolio even better.

So we finish with the recurrent result of R$3.6 billion, with a growth of 3% when we compare to the 1Q and stable when we compare semester of this year with the first semester of last year.

On page 4 we show a split between our Banking Operations and our Insurance Operations. We can see that from our R$3.6 billion of net results recurrent and 2.9 came from our Banking Operations. This means when we compare the location of capital our ROE of 20.4%, efficiency rate of 52% and an efficiency ratio adjusted to risk 75.4.

Insurance almost R$600 million in results for the quarter. ROE 35%-35.3% and efficiency ratio of 33.4% and risk-adjusted efficiency ratio of 65.3%. So I think we are able to show very solid numbers, both for banking operations and insurance.

On page 5 we can see the Financial Margin. The Financial Margin has been reducing in the last five quarters. The peak in this table is 13.4. We finished this quarter with 11.4 and we see that the pace of reduction reduced as we expected due to the increase of the interest rate and more stable spreads and as I said in some lines, even growing the spreads to this lines that will start to grow or stabilize at least in the coming quarters.

We can see them also in the Net Credit Spread is the green line that we have been growing them, the Net Credit Spread in the last 3Q, so we achieved 7.2, and the Risk Adjusted Margin with Clients that also is growing. So in our view we are almost done in terms of adjusting our credit portfolio with the new spreads and adjusted and also with the new interest rate, we believe that the financial margin will start to increase again.

On page 6 we can see how we finished the 1Q with R$10.9 billion in Margin with Clients and we finished 11.3% and how this was done; so R$219 million was related to the growth of the Loan Volume, 121 is related to more calendar days in this period compared to the 1Q, Selic already improved R$115 million in revenues and then we see Product Mix and Product Mix and Spreads also reducing, still reducing the margin but in a much lower pace, in a much lower numbers when we compare to others quarters since we began to reduce our risk appetite and also the reduction in spread in the whole financial market.

So that also gives us more confidence that this Financial Margins with Clients will start to grow in the coming quarters and continue this trend in the coming quarters that we saw in the 2Q. So also we have a positive of R$64 million in Equity in Earnings with our Affiliates Companies.

On slide number 7 we see this trend also in the Financial Margin of Credit achieving R$6.3 billion and Expenses for Allowance for Loan Losses, here net of Recovery of

Credits and write-offs of 3.6. So I think the trend are very positive in both lines and also gives us confidence for the coming quarters.

On slide 8 we saw in the last quarters the trends of the Financial Margins with the Market we have been in a slower pace here, especially in the last two quarters in this quarter especially due to volatility in the market, as I said specially related in our case to prefixed bonds and external debt bonds. So we finished with the lower results in Financial Margin with the Market probably in the whole history of the Bank after the merger and even lower when we compare Itaú and Unibanco standalone.

On page 9 we see the Banking Fees and Result from Insurance. As I said insurance in our case we are not in the health insurance, as you know we are more related with our participation with Porto Seguro and directly with what we call the bank assurance products that we sell through our network of branches but this insurance business have been very good and growing 11% in the last 12 months and almost 6% in this quarter. So I think this is a good number and also the service fees continues to grow almost 21%, more than 21% in the last 12 months and more than 5% in this quarter when we compare to the 1Q. Here we have the impact of course of the Redecard that now we have 100% of the Company.

On page 10 we can see a little bit more details of our Insurance Operations. I think it is important to see that also here we saw a reduction in claims what is good for us in terms of the reduction of our risk, of our assets in our business and continue to, the insurance business continue to grow in a better pace than the banking activities of Itaú - Unibanco.

On page 11 we can see the Loan Ratios. As I said we are in 4.2% when we consider the total NPL ratio over 90-days for credit portfolio. Both Individuals and Companies are reducing and this is the lowest level that we release since the merger of Itaú and Unibanco at the end of 2008. So I think that the policy of reducing the risks are showing up results, we can see also in the bottom chart of this page the coverage ratio that continues to increase for the 4Q in a row so all the numbers goes well and in the trend of policy.

On page 12 we see here the Expenses for Provision for Loan Losses also reducing due to lower loan provisions that we are making in the quarters. We continue to have a very good level of provision, we continue with R$5.1 billion in complementary provision for losses in our expected loss model. So we didn't touch this complementary provision in the last two years.

On page 13 we see the trend of the NPL ratio between 15 days and 90 days. Also here we can see well the good numbers and good trends that also give us the confidence that the NPL provisions will continue to reduce in the coming quarters. We see here a drop of 60 basis points in our portfolio in terms of delays of our clients both Individuals and Companies are in the same trend. We see here in the bottom of the page the NPL Creation and Write off also are in a good trend, so everything in line with our polices of reducing risks.

On page 14 another important part of our strategy that is the control of the Non-Interest Expenses. We continue in a very good trend, 4.6% in the last 12 months what is a good number below the inflation that in Brazil is running at a pace of 6.5. If we adjust the total expenses with the full consolidation of Redecard that we bought in the second semester of last year, we saw that the growth of our expenses is only 2.5%. So we continue in a good trend in terms of controlling the expenses as part of our strategy to keep high levels of return for our shareholders.

Considering all this we saw on slide 15 the trends of our Efficiency Ratio, the Efficiency Ratio traditional measured is increasing because we are not able yet, until now to increase the Margin with Clients, as I said we passed all quarters in reducing this lines so the Efficiency Ratio deteriorated but when we analyze the Efficiency Ratio adjusted with the Provision for Loan Losses and the claims in terms of insurance business we see that we are improving our numbers and I think this is very important the trend of this Risk Adjusted Efficiency Ratio because it shows that our strategy is going well.

On slide 16 we saw the sum of the number of Assets. We finished with R$1.057 trillion in terms of Assets, total Assets with the growth in the quarter of R$2.8 billion, 2.8% and 19% in 12 months. In terms of Stockholders' Equity we had a growth of 1.8% in the quarter, the total of R$75.78 billion in terms of Stockholders' Equity.

On slide 17 we see more details of our Loans by Type of Client, we finished the total credit risk considering private securities that we held in our portfolio with R$467 billion, this is the number of our credit exposure for Individuals and Companies by the end of the quarter. We continue to decrease our car finance, our vehicles financing portfolio, we finished with R$45 billion, a decrease of almost 20% in 12 months and probably we are going to see some reduction yet in the coming quarters.

The Payroll Loans is increasing in a good pace, we finished with R$18.4 billion in Payroll Loans, 3.8 of this came from our JV already with the Banco BMG so the JV is also contributing with the growth of this business that is a business for us important as part of our strategy of reducing the risk of our credit portfolio.

Mortgage also as part of this strategy of growing lower risk portfolio we finished with R$21 billion with Individuals in this portfolio with the growth of 32% and we continue to be very confident that the profile of clients that we are providing the loans of mortgages is good and we, in our ratio of loans to value the houses and apartments and so on are very low, lower than 8% in the origination which we analyze our total portfolio of Mortgage is now closer to 60% so we are very confident that it is a good business and we continue to take advantage of this but as I said, the profile of our clients is more related to high income individuals.

Companies we continue to see a reduction in very Small and small Companies, Middle-Market Companies we are growing a little bit the portfolio but anyway when we saw this three segments together, we continue to see a reduction in the portfolio, both in the quarter and in 12 months. So this is part of our strategy of reducing the risk of the portfolio. And by the other hand Corporate is growing, we continue to see reasonable demand for credit related to large companies in Brazil and the growth in 12 months is almost 16%.

Latin America is the credit that we have and the countries that we have banks as we operate in retail and wholesale banking and the growth here was 11.3% in the quarter but this is more related to the devaluation of the Real, of course we have some growth also in the portfolio in the local currency but when we translate that to Dollars and to Reais we saw this kind of growth in our portfolio.

On page 18 we see here all the Funding and Assets Under Management that we have at working capital of the bank R$1.5 trillion with a growth of 3.1% in the quarter.

On slide 19 we see that as we are… the pace of growth of our portfolio is not very high, the funding is very good in a very good level to fund the new loan.

On page 20 we see the movement, the changes in our Stockholders' Equity. We show a growth of 1.8%. We started in the first day of this quarter with 74.4. We had a Net Income in the period of 2.6, so this is an increase in our Stockholders' Equity.

We paid Dividends and Interest over capital of R$700 million so this is a reduction. 1.2 also a reduction in the Asset Valuation Adjustment for the available-for-sale securities, we bought R$300 million in June in shares, we Repurchase our own Shares in June and so that is the explanation why our portfolio had an increase 1.8 and finishing of R$75.8 billion.

On slide 21 we can see the this Adjustments to Market Value is reduction in our portfolio of R$1.2 billion related to, as I said, to our Prefixed Bond portfolio here in Brazil and also related to this External Debt Bonds that we carry outside to hedge our subordinated debt in Dollars that we have that compose our capital and our BIS numbers. So we can see here in this page if we consider assets and total influence of the liability that influence in our numbers and total impact reality in our portfolio should have been of only R$500 million.

So that explains our reduction in the Stockholders' Equity in the quarter.

On page 22 the BIS Ratio of 17.5, a little bit lower than by the end of the quarter, of the 1Q but still very, very comfortable at the pace of the new operations of the Bank. Also on the slide, number 21 we can see the ROE, the recurrent ROE.

if you consider only the operations of the bank (not considering the treasury operations) just to show the number of our the current banking business we can see that this green line that shows that we have been growing our banking ROE in the last five quarters (not considering the, as I said, the treasury operations with the market) so we finished with an operational ROE of 21.3%.

This total number, as I said in the beginning, considering all the operations was 19.3. But here we signalized that it is important to see that our operations are very good, very solid and growing.

On slide 24 we can see how much we paid in terms of dividends and we continue with the policy of distributing around 30% of the net income.

On slide 25 is the market capitalization of the bank by the end of the quarter, R$122 billion, decreased this year also because of the evaluation of the Bovespa index and the trading that continues in a very good level.

On slide 26 we see the traditional segmentation that we made among the commercial banking, the consumer credit, wholesale banking and activities with the market and the except of capital we see that from our net income, of R$3.6 billion, we see here that R$1.69 billion came from our commercial banking retail operation with a RAROC of 33%.

Consumer credit retail here also impacted by the car financing business, R$485 million with a RAROC of 21%.

Wholesale banking R$774 million here also with loan losses and claims considering this line, so R$774 million and a RAROC of 13.6%. And markets and excess of capital at R$671 million, with a RAROC of 12%.

That's the composition in a managerial way to see the four big segments that we are used to release.

On page 27 is the IFRS numbers. The net income is a little bit higher. The net income in this legislation; R$3.78 billion (above the R$3.6 billion that we released in the Brazilian GAAP). This is related to the way we… the legislation that we need to show loan losses and interest rate. So, the difference is not very big, but we have some numbers decrease.

On slide 28, we saw here the expectations for the rest of the year. Total credit portfolio we are changing our expectation from 11 to 14% growth to 8 to 11% growth. I think this is more realistic considering that we have still some adjustments to make in car financing portfolio and the lower pace that the economy is growing in our expectations, around 2%.

All the others we are keeping. The expenses provisions for loan losses between R$19 and R$22 billion. We are running in a pace of R$20 billion, but we decided to keep the expectation in the same level.

Banking fees growth of 15% to 18%. Non-interest expenses 4% to 6%. And these two we maintained and also the risk adjustment efficiency ratio that we expect it to grow, to improve 200 to 400 basis points and we are in line with this also.

To finalize, on page 29, the new acquisitions and partnerships that we announced in the second quarter; the acquisition of Creditcard from Citibank for R$2.7 billion and we need the approval of the authorities here to go on with this transaction.

Cencosud was a JV in Chile; in line with the strategy that we also have here in Brazil with all the retailers, like CBD, Walmart and Carrefour and so on. And in the same line we made this JV with Cencosud in Chile and Argentina.

We bought two branches of the Citibank in Uruguay to improve our share, income individuals in Uruguay. We announced the acquisition through our JV Itaú-BMG in payroll business of the BMG Seguradora (insurance company) and also the new participation that we have at the new reinsurance business in Brazil that we have now 15%.

So this finishes our presentation and we are open here, all of us, to the questions that you probably have.

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 Mr. Daniel Abut, with Citibank.

Mr. Daniel Abut: Good morning Alfredo. I have a general question on your trends with respect to the ROE. As you correctly explained we saw already an improvement in this quarter even though there were some particularities about the quarter like your lower than normal financial margin with the market. And you also said that you expect this trend of improving the contribution from the financial margin with clients (that is steady this quarter) to continue going forward.

So, if I re… given the line of those statements it seems to me that the ROE should continue to improve from the 19.3% as we go forward, so where do you think that the ROE is heading? Where do you think you can sustain it going forward as this trend continues?

And, in particular, if you could complement that with the page 4 that you showed us that the ROE of the insurance operations is 35%, the ROE of the banking operation was 20.4%, but there is a drag on the overall ROE coming from your excess capital, which is only producing a ROE of 4.2%.

Is there anything that could be done to address that excess capital over time either via an increase in dividends or via acquisitions that could diminish that drag going forward and also favor the re-raise in your ROE?

Mr. Setubal: Hello Daniel. Thank you for your question. I think that the trend that we're seeing in terms of margin in our case, as I said, we are almost done in terms of reducing and adjusting to the credit portfolio in terms of risks, especially in car financing. So, probably this quarter we are going to see some reduction also, but it is almost there.

The spreads are stable in some lines, in some products are even higher than in the past so we see and we consider the SELIC that is growing up again, the lower pace of the economy. Probably we are not going to see much more pressure in terms of spreads in the financial system in Brazil.

So, altogether, we see that this line will continue to grow and we will continue to have good numbers in terms of provisions for loan losses as I said and I showed in some slides. The delays are very low, so these are good signs that probably the provisions will continue to reduce in the coming quarters. The profile of our credit portfolio is much better now than it was in the past. So, everything goes in line and also the control of expenses I think it will continue to show numbers of growth of expenses below inflation.

So, when we consider all this together we see that the ROE of the operation of the bank, as I showed on slide 33, is above 20% already if we analyze this quarter standalone, it was 21.3% not considering the market operation.

So, I think something around 20% is feasible to achieve. Of course, it's very difficult to make previsions and prediction and so on to the treasury operations, especially in this environment that we are here in Brazil and also the international markets also with very high volatility, but if we analyze our operations I think that the ROEs are already in the 20s, low 20s.

So, I think this seems to us, considering the delays and so on, what we year seen in terms of numbers and spreads and so on that is sustainable for the coming quarters.

Mr. Rogério Calderón: Hello Danny, it's Rogério Calderón. I'm going to address the second question. The reason we posted this chart regarding the two main operations we have in the bank is actually to reinforce how important is the banking operations and how profitable and efficient is our business when we consider the banking operations by itself, but your question I fully understand your question regarding excess of capital.

I think that what we can say here is that we permanently look at the capital position trying to conclude if the capital we are carrying in our balance sheet is enough or not, if it is in excess or not. You were going to remember that we used more than R$10 billion last quarter last year to buy minority interest in Redecard. This is a good example of how we can use our main excess of capital, which was a reduction of our capital position balanced by a reduction of cash. A very good example of how we intend to invest ours capital.

Also, we had similar transactions in this last quarter, such as Creditcard and some others, as Alfredo just mentioned. We also have a buyback program that is in full course. We bought 9 million shares during the second quarter. We also increased the dividends pay out by 10% in this quarter. So, altogether it is the sort of actions we are taking regarding our capital management.

I'm going also to call your attention for the fact that we still have some doubts on the regulations regarding BIS3. So, we can do some movements, but we need to be prudent in the way we move because we don't have the final words regarding BIS3. But we are keeping very much attention on this as well.

Mr. Abut: Thank you Rogério.

Operator: Excuse me, our next question comes from Mr. Carlos Macedo, with Goldman Sachs.

Mr. Carlos Macedo: Hi. Good morning gentlemen. Congratulations on the strong results. I have a couple of questions; both are generally related to credit first. Your new guidance for growth has longer accelerated from around 6% year-over-year now to (at the bottom of the guidance) 8%.
Does that mean that there is a greater appetite for loans at the bank or is that just a reflection of a much easier basic comparison at the end of next year?

And the second question is regarding your provision expense guidance. You did lower your loan growth guidance, but did not touch your provision expense guidance. Given the level of improvement that you've seen in NPLs, what is the likely that guidance is really a little bit too conservative and that you will actually end up tracking not only the lower end of that guidance, but really below that guidance? Thanks.

Mr. Rogério Calderón: Macedo, Rogério. So, first, regarding our growth expectations, we don't intend to change anything in terms of our credit risk appetite. We see some acceleration in the second half of the year. This is related to the macro scenario and is also related to some level of acceleration in the car loan that is it still behind what we had at the beginning of the year in terms of expectation, but marginally improving from the first half of the year.

So, altogether we see some acceleration in the second half of the year, but it's going to be in between 8 to 11%, as we mentioned.

Mr. Macedo: Okay, just a follow-up question quickly. Previously, as mentioned, the target for the BMG partnership was to reach R$12 billion in loans at the end of 2013 and you are at 3.8 at the end of the second quarter. Does that target still remain?

Mr. Calderón: Yes, it still remains and if we are based on the pace we are right now, eventually we may be over that figure in the period we were mentioning; it was by the end of 2014. Remember it's a two year period when we mentioned this target and we are a little bit ahead of the schedule on this implementation.

Back to your second question I think it's fair to say that if conditions are kept at the current circumstances we have (and you highlighted that’s most of the… most or all of the indicators regarding delinquency are behaving very well) so if all the conditions are kept it's probably, it's likely that we are going to post our total expenses on loan loss closer to the low end of the guidance.

Mr. Macedo: Okay. Thank you Rogério.

Operator: Excuse me, our next question comes from Mr. Philip Finch, with UBS.

Mr. Philip Finch: Good morning everyone. Thank you for taking my question. It's really to do with slide 6 of your presentation, which shows the devolution of your loan portfolio mix where we've seen in the last 12 months the SME and the auto portfolio shrinking quite a lot. I guess the question really is; from where you are today, how much more, how much further change could we see that mix especially in regards to the SME and the vehicle segments? Thank you.

Mr. Calderón: So, specifically on vehicles it's a long story, actually. What we're seeing now is worse than what we had at the beginning of the year. So we were expecting inflection points in this credit portfolio by the second quarter. Now we don't expect to see the inflection point or the beginning the restarting growth in the year 2013.

Probably just in 2014, what means that by year end probably our total portfolio on auto loans is going to be around 41, R$42 billion.

When looking at SMEs we see marginally an acceleration from now on and the figure that we are posting now that shows a negative growth (close to 6%, 5.7%) it's probably to be much lower if not positive by the year end. So, growing from now on, but not growing because of any change in terms of our risk appetite, but related to the fact that we expect some acceleration in the economy, not a huge one, but a positive trend in the second half of the year.

Also, and back to the vehicles loans, we do believe that the performance in the second half tends to be better than the performance in the first half, but not enough to make the credit portfolio as a whole to restart the grow. It's balanced.

Mr. Finch: Thank you. So just to summarize, can we say that currently what you have today is closer to the optimum mix that he would like to have?

Mr. Calderón: It's closer, but not finished. Probably we have advanced to maybe 78% of the total chance of the mix portfolio because we still have (and this is not only regarding Itaú Unibanco, but the whole market probably), we still expect mortgage to outgrow, to outpace the other lines of credit in this country.

Mr. Finch: Okay. That's very clear, thank you very much.

Operator: Excuse me, our next question comes from Mr. Amit Metha, with Pimco.

Mr. Amit Metha: Hi, thanks very much for taking my question. I just really wanted to get more color on your margins…

Mr. Calderón: Excuse me Amit, we cannot hear you.

Mr. Metha: Can you hear me clear now?

Mr. Calderón: Much better. Thank you.

Mr. Metha: All right. Thanks. I just wanted to get more color on your net interest margins trends. I know you highlighted a lot of the derisking of the book has occurred, but is there a lag in the margin trend that we might see going forward?

And also is there anything that you're doing is specifically on your financial book where you think you could get a stronger performance going forward compared to the depressed quarter that we've just seen? So, if you could just elaborate on those margin trends from here, please.

Mr. Calderón: Okay. So, our net interest margin with clients we do believe that the compression tends to decelerate further on and we expect to see net interest income slightly improving from now on and probably such line (net interest income) to post growth in comparison to the same period last year as from the 4Q.

So, better saying, we expect that by the 4Q this year our net interest income should be outperforming a year ago. What is not happening now we said last conference call that we were expecting net interest income to accelerate, to grow, to restart to grow as from the second quarter; this is what's happening. It's still timid in terms of movement. We expect some acceleration by the 4Q we are going to be in a point where we will be outperforming last year fourth quarter.

This is really very important when addressing our net interest income expectations.

Regarding the financial margins (or the way we call margin with the markets) we still see some movement in the market, some higher volatility than normal, what makes more difficult the performance in this area. Always remembering that we operate in very low level of acceptable value at risk, what means that it's very efficient to control or to protect our shareholder total value, but on the same hand, it does not allow treasury to take higher positions, what could make faster any recovery if it's a well succeeded decision.

So, everything said, we do believe that we can perform better than what we posted in the 2Q regarding this line because the 2Q was actually the worst ever in our performance, but we recognize that the conditions are still tough right now to better perform, but we keep expecting performance to be better than what we posted in the second quarter.

What is the positive outcome of this picture is that in spite of this not as good performance in terms of margin with the market our bottom line improvement compared to same quarter last year it is a meaningful improvement, what means that in case we are running at the normal level of our financial margin with the market we could be on a higher than 20% ROE, as Alfredo just mentioned.

Mr. Finch: So, it's just a quick follow-up, just to understand clearly. On the financial margin should we anticipate now an 800+ result would be more exceptional because of where your risk tolerance is in terms of all, or are we actually at a very depressed period because of the volatility?

And then also, I mean, your ROE is obviously physically… has shown an improvement, it's 19%, but, I mean, a lot of that has come from shrink of equity rather than from increasing profitability. So, I mean, the positive thing now is that the shareholder’s funds aren’t going backwards as we've seen in the past.

So, can you just elaborate on the financial margin contribution and obviously I'm hoping now that the equity doesn't go backwards much further as we've seen over last quarters, or at least not improving… you know, the pace is decelerating in terms of decline.

Mr. Calderón: Not sure I fully understood what you said. The sound was actually pretty low here. From the portion that I could hear what we can say is that we never supply any guidance in terms of our performance in this line; the margin with the markets. However, of course, we believe that we can perform better than what we posted in the second quarter.

The average we posted in our chart is actually a reference based on the past that does not imply any guidance for the future, although, as I said, we expect to perform better in this line.

In terms of the margins with the clients, definitely, this is going to improve. I'm referring to the bottom line to be higher and then the ROE is a consequence.

Mr. Finch: Okay. Thanks very much.

Mr. Calderón: Thank you.

Operator: Ladies and gentlemen, as a reminder, if you would like to pose a question, please, press the star key followed by the one key on your touchtone phone.

Our next question comes from Mr. Marcelo Cintra, with Deutsche Bank.

Mr. Marcelo Cintra: Hi, good morning everyone and thank you for taking my question. Look, during the Portuguese conference call you guys mentioned the focus on the credit card business, which is also in line with the recent transactions that the bank did.

However, when we look at the transaction value growth of the credit card issued by Itaú we see a deceleration over the past two quarters and transaction has grown only 9% in the second quarter, while the industry is growing close to 20% and your main peer is posting stronger growth sequentially.

So, I just would like to better understand if you guys are seeing a steeper competition in the segment and if this could represent a concern for us and what is your overview for the following quarters for the credit card industry specifically? Thank you.

Mr. Calderón: This does not represent any concern. The trend in this business is a positive trend. We are fully committed to this area. It's very much related to the strategy we have defined that is related to the mix payments, industry, more services fees added to our revenues, so everything that is related to the acquiring business as well, the movements we made regarding Redecard, the recent movements you mentioned, Marcelo, related to the acquisition of Creditcard, Cencosud and also the Uruguay operations of Citibank that has an important portion of credit cards in that market.

So, this is very much related. The fluctuations you saw in the balance are much more related to the seasonality of this product by the year end and beginning of the year as a consequence of the movement in the fourth quarter. We don't see any major or any issue regarding any concern on our evolution in this business.

Mr. Cintra: Okay, thank you. Just a follow-up, given that you mentioned Redecard, I just would like to have more color on the integration of Redecard business and if the bank is already offering, like some other products of acquiring and also banking products and if you guys still expect to keep accelerating transactions growth on the acquiring business? Thanks.

Mr. Calderón: We are at full speed in that strategy we have explained to you that is posting together the benefits of operating under a single bank business that also has an acquiring business, what means that when Redecard is dealing with a client it's not dealing as a product supplier, but also as a channel, what means that the bank business operations or the products could be actually offered by this channel as well.

This is under full implementation, actually. We are also increasing this strategy, engaging more SMEs in this business and that's pretty positive. This is a strategy that allows us to keep or even increase our market share without damages in terms of margins or prices.

Mr. Cintra: That's perfect. Thank you very much.

Operator: Excuse me, our next question comes from Mr. Daniel Abut, with Citibank.

Mr. Abut: Just a quick follow-up, Rogério. If I recall correctly in the last quarterly conference call you did say that although it was early to give any guidance in terms of loan losses provisions for next year you could see a scenario where 2014 becomes a second consecutive year in which the loan loss provision on an absolute amount basis decline again, although not as much as in 2013.

You are trending as a real set over the 20 billion level for this year, although it could be even lower than that, closer to the 19 bottom of the guidance. Last year was 24 billion. Do you still see a scenario, a realistic scenario where 2014 to be below that 19 to 20 billion that you made and up booking in 2013?

Mr. Calderón: We had the same picture, Daniel that means that we expect the loan loss provision to be in a lower nominal amount in 2014 than in 2013.

Of course this is related to the growth and we believe that at the level of growth that we are expecting right now it is possible to post a lower figure (total amount) in loan loss provision in 2014 than what we're doing right now (I'm referring, of course, to nominal amount of loan loss provisions).

Mr. Abut: Right, so is 2013 ending in 20 billion for the sake of the argument inclusive low 20?

Mr. Calderón: That's right.

Mr. Abut: Okay, thank you Rogério. That's very useful.

Operator: Excuse me, our next question comes from Mr. Amit Metha, with Pimco.

Mr. Metha: Sorry, I mean, slightly related to that same question asked by Daniel. I'm just curious; how do you account for your loan losses assumptions given the risk of rising unemployment situation? We've seen the recent turn in the unemployment data, so I’m just wondering what are your expectations for that trend when you kind of give that confidence in guidance hopefully?

Mr. Calderón: We consider all the movements in the macro data when we make our models to have the final figure on loan loss provisions. You mentioned the unemployment levels; it is actually pretty stable right now. There is a possibility that we keep… if we keep decelerating the economy it's possible that we have an increase in unemployment, however, this is still pretty slight and we don't think that is going to have any major impact.

Anyway, it's there important to remember that our credit portfolio now (based on several quarters under a more selective approach) is actually much stronger against any slight movement. So, we are less dependent on these small movements such as this one (the level of collaterals in the operations, etc.). This brings much more quality to the asset.

Anyway, it's always considered in the model and keep in mind that our models are based on expected losses, so it's not based on want is incurred in the past, but based on what is expected in the future, what means that every time we have any concern or any movement negative this is considered in our models to come up with the final figures.

Mr. Metha: Okay, I appreciate that comments so that maybe you can just quickly add one more step for me. Given the mix shift in the loan portfolio how much improvement have you created in the expected loss credit… expected loss charge potentially going forward? So, how much enhancement have you done to derisk the credit risk cost that you may incur going forward?

Mr. Calderón: Could you elaborate a little bit more? We are not sure we understand your question.

Mr. Metha: Sure. If I gave you an example, let's assume your credit portfolio had a certain makeup two years ago when you had more auto exposure and expected loss under your models was, let's say, 350 basis points. Now you changed the mix of your loan portfolio to improve it and you expect your loss to maybe 300 basis points, so you've obviously improved expected loss outcome by 50 basis points by the mix in the shift of the portfolio (mix shift in the portfolio).

So I'm trying to understand, given that you derisk the portfolio, effectually how much do you think you derisk your credit loss expectations? Because for the margin compression you are accepting to tolerate you must also get the offset on the credit losses as well.

Mr. Calderón: So if I understand your question I think that the expected loss model we had this is fully impacted by the potential default and to the loss given default and this is all in compass in the model, what means that this is, you know, as we had changed the mix of our portfolio probably around 78% towards the optimum level, this is probably what we had so far, so what means that we can have probably a marginal additional improvement of maybe 30, 20%, but this is a very rough calculation.

We can go into further details and try to come up with a figure, but you know, just by first idea we think that as this is captured by the model and we have advanced probably 78% to the optimum level, this means that probably we can go... we can improve maybe 20, 30% more out of what we had since now with, of course, a loss given default in a lower level than what we had before.

Mr. Metha: Okay, thank you very much.

Operator: Ladies and gentlemen, as a reminder, if you would like to pose a question, please, press star key followed by the one key on your touchtone phone.

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

Mr. Setubal: Thank you everybody for participating with us. It was a very good conference call and we were able to show you the stronger results that we released and the strategy that we are doing. I think we are in a good momentum. I think that the strategy is showing up the results both in terms of ROEs and in terms of losses… provision losses. So, I think we are in a good trend.

Thank you for your time and I expect to have you all again for the release of the third quarter. Thank you.

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