## Local Conference Call
## Itaú Unibanco Holding International
## Third Quarter 2012 Earnings Results
## October, 24th 2012

**Operator:** Ladies and gentlemen, thank you for standing by. We inform you that this conference call aims exclusively to discuss the earnings results of Itaú Unibanco Holding regarding the third quarter of 2012.

At this time all lines are in a listen-only mode. Later there will be a question and answer session and instructions to participate will be given at that time. If you need assistance during the call, please press the star key followed by zero (*0). As a reminder, this conference is being recorded and broadcast live on **www.itau-unibanco.com/ir**. A slide presentation is also available on this site.

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 those 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 **Alfredo Egydio Setubal**, Executive Vice President and Investor Relations Officer; **Sérgio Ribeiro da Costa Werlang**, Executive Vice President of Risk Control and Finance; **Caio Ibrahim David**, Chief Financial Officer; and **Rogério Calderón**, Corporate Controller & Head of Investor Relations.

First, Mr. Alfredo Setubal will comment on the third quarter 2012 results. Afterwards, management will be available for a question and answer session.

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

**Mr. Alfredo Setubal:** Hello, good morning for those who are in the US, good afternoon for those who are in Europe. We have a presentation here for the 3Q. It's a pleasure to be back. For those who are following through the slides, we are starting with the slide number two, the highlights for the results. The first one is the result itself, we achieved the recurrent net income of R$ 3.4 billion in the quarter, this means annualize ROE of 17.7% and also a decrease when we compare to the 2Q12 of 4.8%.

When we look for the nine months period of 2012, the recurrent results reached R$ 10.5 billion with an annualized ROE of 19% and a decrease compared to the last year of 3.2%.

The second highlight is the loan portfolio growth. Here we are showing the numbers with all the endorsements, sureties and private securities that we held in our treasure portfolio. These total number achieved R$ 437.6 billion with a growth of 1.1% when we compare to June of this year. We are going to go in much more details in the coming slides when we talk about the credits.

Third highlight is the financial margin with clients, the total was R$ 12 billion in the 3Q is a 3% reduction when we compare to the 2Q of this year. The net interest margin with clients reached 10.6% in this quarter with a decrease of 30 basis points when we compare to the 2Q and is essentially because of the reduction on the SELIC rate during this period and also because of the higher growth in the loan portfolio of lower risk and spread clients in this period in the strategy that we are following of reducing the risk of credit portfolio of the bank in the coming quarters.

The spread reduced, decreased 60 basis points achieving 12.8% and the risk adjusted credit spread, net spread, what we consider net spread, showed a 50 basis point decrease achieving 7%.

Fourth highlight is banking fees and the results from the insurance business, pension plans and capitalization. The banking fees and insurance, the revenues achieved R$ 5.7 billion in this quarter. In the first 9 months of this year this revenue increased 8.7% when we compare, achieving R$ 17.2 billion in this 2012 nine months.

Fifth highlight is the non-performing loans ratio and loan losses. Expenses achieved net of the credits recovered in the quarter, total of R$ 4.8 billion with a decrease of 1.7% to the previous quarter. The 90-day NPL achieved 5.1% with a decrease of 10 basis points and what is good is the 15-90 day NPL ratio that reduced 30 basis points that may be indicating downward trend in this ratio for the coming quarter, of course.

For the next two quarters we expect loan losses expenses to achieve something between R$ 5.5 and R$ 6 billion.

Number six is the non-Interest expenses. We show a decrease of 3.1%, a nominal decrease in this quarter when we compare to the previous quarter and when we compare 12 months, September to September, we show an increased 2.7%, what is much below the inflationary levels.

The seventh highlight is the efficiency ratio that achieved 45.5%; increased when we compare to the last quarter mainly because we are not increasing the revenues in the pace that we were planning because of the strategy in reducing the risk of the credit portfolio. When we analyze 12 months, we see a better number, 45% and a decrease of 240 basis points in the ratio when we compare to last year.

Unrealized gains in the last highlight, we showed R$ 6.9 billion with an increase of 19.9% in the quarter and also we have unrealized gains in our available for sale portfolio, security portfolio of R$ 2.4 billion.

So going in more details about all this highlights, that is the first plant that we showed, we are going to page 4, and we see our results. So going back to the margin with clients, we saw this decrease of 3% in the quarter mainly because we are reducing our credit portfolio related to cars financing and we continue to be very conservative in the small companies so this also reduces our margin with clients with lower volumes as we continue in this pace of reducing the risk of our portfolio.

Of course we have also the competition is more active and this means less spread in some of our credit lines and also because we are reducing the risk of the credit portfolio. Of course we are operating with lower spreads with better quality clients so all of these together represented this reduction in this quarter of 3%.

When we see the line of financial margin with the market, we see also reduction in this quarter, important reduction of almost 25% but just to remember in the last conference call when we showed the 2Q we said that the number of the 2Q was higher than the average of the quarters and this 3Q is much more in line with what we can expect in terms of performance for our operations in the market through our Treasury Department.

We see also that the results from the insurance business an increase of 2.1% in the quarter and a good number of almost 16% when we analyze 12 months. In terms of loan losses, I think the expenses for the loan losses we stayed in the same level of the 2Q around R$ 6 billion and also the same level of recovery of credits written off almost in the same level of the 2Q so we continue to be very confident that this expenses for loan losses will continue to reduce and as I said before, we expect this coming quarter, the 4Q to be something between R$ 5.5 and R$ 6 billion in terms of expenses.

In terms of the non-Interest expenses, is a good number, we continue to be very focused on controlling expenses and we were able to show a 3.1% reduction, a nominal reduction in the quarter, even with R$ 145 million that was the impact that we had in the quarter because of the annual negotiation with the Union in terms of salaries negotiation. So 3.1% reduction was a very good number and when we analyze at 12 months we see also 2.7% that was very good because of inflation level is around 5.2%.

So we continue to be delivering good numbers in terms of expenses. And these all together so we show this R$ 3.4 billion in terms of recurrent result with a decrease of almost 5% to the quarter and 3.2% when we compare with the whole year 2012 with nine months of 2012 and nine months of 2011.

On page 5, the highlight, we can see here in a more visual way our revenues with growth of 12 months of 8.2%. Loan losses provision we achieved almost R$ 18 billion what is... continues to be a very high number that we are working hard to reduce. Non-interest expenses of almost R$ 25 billion, this increase of only 2.7% and the recurring net income with the decrease of 3.2% of R$ 10.5 billion by the end of September.

On page 6, net interest margin, we can see here the reduction with the margin with clients, of 70 basis points when we compare 9 months with last year and 30 basis points when we compare to the 2Q of this year.

Banking fees and the results from the Insurance business increase of 8.7% in terms of fees for this segment. So the Recurring ROE of 17.7% is among the quarter, among the lowest of the bank, in the history of the bank in the recent years but we show 19% when we analyze the results for the nine months of the year.

On page 7 we can see the financial margin, the gross and the net and the SELIC rate the CDI showing that we have been following the reduction of the growth spread achieved 12.8% in this quarter when we compare to 13.4% for the 2Q of this year. As I said the main reason here is the lower pace of our growth in terms of credit portfolio and we are reducing substantially the car financing portfolio so we are losing market share and also being much more selective in terms of car financing and also because of the reduction of the SELIC rate and this new mix of credit with better clients, of course , we are operating in a lower spread environment to achieve better quality clients in this new mix of credit portfolio that we want to have in the coming quarter.

So this of course, impacted the financial margin with the clients and the trend growth for gross credit spread and the net credit spread reduced from 7.5% to 7% also in the same trend that we have seen in the market.

On page 8 we see that we finished with R$ 960 billion in terms of total assets with a growth of 8%. Stock holders' equity of almost R$ 79 billion, a growth of 4.4%.

The loan portfolio with the endorsements and securities but not with the private securities of 417% here is a low growth because of this reductions and strategies that we adopted in the credit portfolio.

And funding, clients money and money, total including the assets of the management of R$ 965 billion.

So going to more details in the credit portfolio on page 9, we can see here the reduction of the car financing. Vehicles we were at R$ 60 billion by the end of the year and we finished this portfolio with R$ 44 billion by the end of September and we will continue to reduce in the coming quarters this portfolio and probably this year we will finish something between R$ 50-52 billion and probably we are going to see a reduction yet in the 1Q of 2013. So this of course will impact the growth of our total portfolio even though we are growing in other credit lines but the impact of the car financing in terms of growth of the portfolio will continue in at least in the last two coming quarters.

Mortgage continues to be a good business, showing a good growth 6% in the quarter 32% in 12 months. In terms of companies I think we continue to reduce and to be much more, much less activity with very small and small companies that is the reason that our credit portfolio in this segment is not growing. It decreased in this quarter 2.4% and the growth was only 1.1%. We continue to grow our middle companies' portfolio but when we analyze very small and small we are much more conservative in reducing the portfolio. And this is compensate by a much bigger growth in terms of corporate, large companies that showed a growth of 3.7% in this quarter and 16.4% in the 12 months.

Going to page 10 we can see the NPL Ratio for over 90 days, with a small reduction in this quarter from 5.2 to 5.1. We see reduction in the company's portfolio reducing from 3.5 to 3.3 and an increase in the portfolio in the ratio of the individuals portfolio and this increase, one of the reasons for that is that we are still making provisions for the car financing portfolio and we are reducing the portfolio so the NPL ratio in this portfolio is increasing even though the quality of our new contracts are much better as I will show in the next slide, than in the past. So this is one of the reasons.

When we analyze the NPL from 15 to 90 days we continue to see the 3Q in a roll with much better numbers, even to companies and for individuals the average of the bank reduced from 4.8 to 4.2 so this gives us confidence that we are in the correct way to reduce the risk of our credit portfolio and reduce the level of expenses for loan losses. The total loans for loan and losses is R$ 27.7 billion by the end of September.

On page 11, we can see the 90-day NPL ratio by vintage when we compare 4 and 6 months after the origination. Let's focus on the 4 months that will show the NPL over 90-days, we can see that by the end of 2009 our numbers and the market results of Itaú-Unibanco was almost the same, 0.47-0.48%. We had a worse performance when we compare to the market. Almost all this period until the 1Q of 2011 and when we took some measures to reduce the risk of this portfolio and we today are in a much better position because we anticipate this provisions when we compare to the market, today our portfolio is showing much better ratios than the portfolio when we compare to the market so I think also this showed the trend that we are in the correct trend to reduce the risk of the portfolio and to operate with clients that showed this better quality portfolio.

On page 12 we can see that in 2010 we operated with a 3 months in this portfolio and in the 3Q we operated in a 42 months in the portfolio; we are not anymore financing 100% of the vehicle so the trend has to put 20-30% to get the financing for the rest of car cost and this also brings better quality and better clients to our portfolio. In the 3Q this credit portfolio of vehicles we made R$ 971 million in terms of loan losses provisions and we expect a reduction in this coming quarter to something around R$ 800 million in this level of provision.

On page 13, we show here all the funding and asset under management and working capital of the bank and so on that we achieved R$ 1.2 trillion where this is a very comfortable position in terms of deposits and line money.

On page 14 we continue to be very confident in terms of the deposits are very good in terms of funding level for the credit portfolio specially in this moment where we are growing in a slower pace because of the strategy of reducing the risks of our portfolio.

On page 15 we can see more details of our service fees, we can see that the main reason when we not achieving the guidance in terms of growth of service and service fees for this year is located specially in the fees that we collect from the loan operations and guarantee that we provided to clients that showed a reduction of almost 20% when we compare 12 months and 6.5% in this quarter so I think that is the main reason when we analyze other lines that are the management current accountings the accounting, the checking accounts services is good in terms of volumes.

We are not suffering any kind of pressure here and also another point of attention when we compare is that we sold Orbital's Processing Services during this year and this impacted our service fees when we compare to the last year. So I think in general we are not achieving the guidance especially because we are reducing our credit portfolio that also provides less (inaudible) in this service related to the loan.

When we go to page 16, we see non-interest expenses and efficiency ratios; here is a very good number with a nominal reduction of 3.1% in the quarter when we compare to the 2Q and only an increase of 2.7 when we compare to last year so we continue to be very focused in this strategy of reducing the costs of the bank to compensate the reduction on spread due to the much higher level of competition in the market and also a reduction in our spread related to the strategy of reducing the risk of our credit portfolio that brings a different mix of products and also different clients, much better clients in terms of quality of credit that also operates with a lower spread.

Here is important to say that we are controlling much more the cost of the bank in the areas that don't put any risk in terms of quality of our services and also in terms of technology. We continue to invest in new branches, we continue to invest a lot in terms of technology in terms of quality of our services we are not cutting costs in this area.

On page 17 we can see the distribution of our recurring result our composition in a maragiro way to see it we can see in the 3Q that the Commercial Bank was responsible for 30% of the result, Itaú BBA with 16%, Insurance 13%, consumer credit 9% and actives with the market and the excess of capital of 32%.

In terms of BIS Ratio on page 18 we are very comfortable with 17.5 and of course in this moment, in this quarter that we are growing less the credit portfolio with less funding and of course less capital.

On page 19 our daily Trading continues to be good, R$ 742 million in line with the other quarters and giving opportunities to all kind of investors to buy and sell our shares.

The last 3 slides are important messages. The first one on page 20 to Redecard that we were successful in the Tender Offer that we made to buy the shares of Credicard and CVM also day listed the company last week so we are in the process of making all the necessary corporate transactions to maximize the value of the company that we intend to do it during this 3Q till the end of the year.

On page 21, as I said we announced a huge amount of investment in technology in the last two weeks, two weeks ago and R$ 10.4 billion between 2012 and 2015; this means R$ 2.7 billion in data processing systems from third parties R$ 0.8 billion in software acquisition and R$ 4.6 billion in internally develop of software and also we are, we started this year the construction of a new data center for the bank. The first phase will be completed by the end of next year so in 2015 we will already start to use this new data center and this infrastructures we can grow in the coming years, as the bank needs more capacity to do all the transactions in terms of technology and process. So it is a very important investment looking 20-30 years on the bank history.

On page 22 we announced yesterday when we released the 3Q results that we sold to Experian our shares in the Company, to Serasa Experian and this 16.34% that we had in the company that was sold and the result before taxes that we appear in our non recurring results in the 4Q is R$ 1.5 billion.

So this finishes our presentation and we are open all here in the conference call to answer the questions that you will 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 (1) key on your touch-tone phone now. If at any time you would like to remove yourself from the questioning queue, press star 2.

Our first question comes from Mr. Mario Pierre With Deutsche Bank

**Mr. Pierre:** Good morning everybody and thank you for taking my question. Let me ask you two questions Alfredo. The first one is related to your provision charges as you… you know, made your case for the presentation that your spread has been under pressure from a change in the loan mix but provisions have not yet reflected this change in the loan mix but when you gave your guidance for provision charges in the 4Q and 1Q, 4Q this year and 1Q next year you pretty much guiding for provision charges to remain relatively flat so I was wondering why do you think provisions should be flat in the 4Q and 1Q next year specially also as you showed that some NPL ratios are already improving?

And then my second question is related to you tax rate, your effective tax rate next year as you showed the acquisition of Redecard created good will of about R$ 10 billion. So I was wondering if you expect any improvement in you effective tax rate next year?

**Mr. Setubal:** Mario this is Alfredo, related to you first question, about the mix and the provision we expect the coming quarter to show a reduction in the nominal levels that all provisions that we showed in the last two quarters that was around 5.9. We are seeing something between 5.5 and 6 is probably conservative, I agree, we expect a lower number when we compare to two previous quarters. In the next year probably we are going to increase our portfolio, our credit portfolio again in a more normal pace when we compare to the market so we will also need more provisions related to this growth of the portfolio.

And also the mix, I think the mix will take us with a lower level of provision because we are in a lower, we are changing the mix of the credit portfolio specially cars as I showed some slides, also reducing the very small and small portfolio of companies that also will bring lower provision but also we are operating with lower spread so the reduction in the margin is also related to the mix and I think today represents most of the reduction in the margin is the mix and of course , part is the spread because the competition is much more active, everybody wants to make more revenues so the competition of course is much higher.

So we expect a nominal reduction in the coming quarter in terms of loan losses provisions and also in 2013 isn't growing the portfolio we expect a good reduction in the loan and losses provisions.

**Mr. Pierre:** Thank you Alfredo but just to get a better idea, when you say a good reduction in provisions what does that mean? Does it mean double digit reduction or is it a single digit?

**Mr. Calderón:** Mario, it is Rogério speaking. We actually don't have such level of precision to give you right now but we expect the level of reduction to be actually bigger than the one we are presenting regarding the 1Q because you should remember that in the 1Q we have seasonality against us and then it should improve even better in the following quarters. If you also consider that some level of recoveries should increase it's a good sign of a sizeable improvement. We don't have the figure to give you but it is, we are pretty positive on this.

Let me address the second question, you mentioned goodwill. We are finishing our analyzes the goodwill matter is under analyses we are, you know, we need to finish the appraises in order to separate what is tangible from non tangible etc but it may cause a positive impact on our results next year, yes, it may cause.

**Mr. Pierre:** Ok and just to understand also, once you separate what is tangible and is intangible is there a guideline on how many years you have to amortize this goodwill?

**Mr. Calderón:** We are still finishing this but it is probably around 6, 8 years or close to that. But not, we have not finished it yet.

**Mr. Pierre:** Sure. When do you expect Rogério, to have more information on this?

**Mr. Calderón:** Probably next call we should have this information to give to all of you.

**Mr. Pierre:** Ok. Great. Thank you.

**Mr. Calderón:** Thank you.

**Operator:** Excuse me our next question comes from Mr. Carlos Macedo with Goldman Sacks.

**Mr. Macedo:** Good morning Rogério, good morning Alfredo. I actually have a couple of questions. The first one is related to your expenses. You had a very impressive performance in the expense line this quarter with the reduction and admin expenses and flat personnel expenses. I realized that you still have severance expenses there and clad personnel expenses. I was just wondering when do we rebase in other words, when do we reach a period where expenses start growing again at inflation or maybe at a slightly higher level? Do we still have more efficiency to come from this expense number?

And the second question is related to your tax line. We did see a fairly low affected tax rate, of course there might have been some changing in the accounting in the quarter, I was just wondering what should we expect in terms of effective taxes? Are there more tax courtesy so you can take advantage over the following periods or should we expect the tax line to increase?

**Mr. Setubal:** Ok Carlos I will answer the first question and Rogério will answer the second one. I think we continue to be very focused on reducing the expenses of the bank. We expect the next year also the growth of the expenses to be below the inflation levels, we are working hard to be the lowest as possible in terms of expenses. we continue to get some synergies and changing process and putting new systems in place and all this together are working very well in terms of reducing process and costs for the bank.

As I said before we are not reducing the expenses, putting quality and important investments in risk. We have a very strong brand and a very good level of clients and we don't want to put our franchising in risk when we are saying that we are controlling the expenses. So we continue to be very focused on clients and quality of relationship. We are making all this investments in terms of technology that we announced and so we continue to see opportunities as we did, we continue to see the opportunities in terms of process in terms of getting more efficiency.

So next year we will continue to be very focused on this level of growing below inflation I think we have some synergies to capture yet and probably in 2014 we are going to see the same trend. Let's see the evolution of the next year but our expectation is that in the coming two years we will be very, continue to be very tough in terms of controlling the expenses. Not only personal but all the other expenses like trips, like the use of telephones everything is under analyses in this period and will continue, we continue to renegotiate with our providers and we continue to be very focused in this equation.

We see a scenario of lower spread with the economy not performing so good like in years in the past so we have to compensate all this in a much better and much efficiency bank to keep the level of returns that we expected. I think this quarter in our view the ROE was a point of out of the line. I think we expected to increase our ROE next year to more stable levels that we showed in the last 12 months. That is the way we are working in terms of expenses and also in this strategy of reducing the risk of our credit portfolio.

**Mr. Calderón:** Just in the second question Carlos, our current normal level of effective tax rate is 27-28% of course we have some volatility in this figure to recognize eventual increasing in a tax credit here or there or because of the different composition between the different tax rates we have in different entities. Remember that we have some entities that are on 34 not on 40% so when you blend the mix there are some volatility on this we don't expect movements on this effective tax rates up to the 3Q next year we still have the social contribution credits to fulfill our effective tax rates up to the 3Q next year.

**Mr. Calderón:** ... we still have the social contribution credits to fulfill our effective tax rates up to the third quarter next year. As from the third quarter next year our effective tax rate should go up to around 31-32%. Remember that we are giving all these information ex any eventual benefits from the Redecard goodwill as I addressed Mario in the previous question.

**Mr. Macedo:** OK, perfect, so you still have tax credit pay will last more or less one year?

**Mr. Calderón:** Three quarters next year, yeah, as from the third quarter next year, we'll have this increase impacts ex Redecard benefits.

**Mr. Macedo:** Ok, perfect. Thank you, Rogério. Thank you, Alfredo.

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

**Mr. Finch:** Good morning, gentlemen. Thank you for hosting the call and offering the option to ask some questions. I have two questions, please. The first is regarding your loan growth expectations going forward. We've clearly seen the rate of growth slowdown in previous quarters. The question is: when could we start to see the start to reaccelerate and bearing in mind that you've earlier in the presentation that you're planning to continue to shrink your vehicle portfolio.

And the second question is related to the ROE performance of your bank, which came in the third quarter at a low level. What is a level that you think that the bank should be able to achieve; is this a one of what we saw in the third quarter or are we likely to see slightly lower ROEs going forward? Thank you.

**Mr. Setúbal:** This is Alfredo, regarding to the loan growth expectations, so we are… if you take off the car financing and the reduction in small and very small companies, the pace of the other lines are good, are around 14-15% when we take off these two lines. So the issue is these two credit lines.

As they said, we will continue to reduce and we expect that by the end of this year the car financing portfolio to finish something between R$50 and 52 billion. In the first quarter of next year probably the portfolio will reduce R$2 billion more or R$ 3 billion more, I think. So, when we consider the car financing we see probably two quarters of reduction of this portfolio. So, we have around R$7 billion of reduction of our total portfolio coming from this line.

Also, we will probably see one quarter more of reduction on the credit portfolio relate to small and very small companies. So, answering your question, probably by the second quarter of 2013 our credit portfolio will start to grow in a pace of the market, depending on the market, the economy conditions and the scenario that we foresee. At this moment, maybe even higher than the market, but I see second quarter and a half as the time that the portfolio will grow at least at the same level of the market.

And in terms of ROE, it's difficult to measure, we don't like to give numbers in this arena, but we expected to have ROEs, normalized ROEs in terms of result, due to all this effort that we're doing in terms of reducing the risk of the portfolio that, of course, will give us a positive impact in terms of the level of provisions, loan and losses provision that we will need to make in the coming quarter, all the efforts in terms of reduction, reducing the expenses of the bank, non-interest expenses. All these components we see, let's say, something a little bit higher of the average that we have in the first 9 months of this quarter is what we target in terms of ROE for the coming years.

**Mr. Finch:** That's very hopeful, thank you very much.

**Operator:** Our next question comes from Mr. Saul Martinez, with JP Morgan.

**Mr. Martinez:** Hi, thanks for taking my call. I know you're going to give guidance in 2000… official guidance in 2013, after the fourth quarter results, but can you just comment a little bit about what your initial views are for net interest margin to NII growth next year, given all the trends that you are talking about the, still a couple more quarters of decline and some year higher margin lending segments followed by increases? Can you give us a sense for how you're seeing NII evolve next year?

And then secondly, on a kind of related question, I suppose, just on your overdraft rate, it seems like the public banks have really reduced rates aggressively, private banks have not. Do you see any pressure from reduction in your overdrafts, obviously it's a small portfolio but the yields are extremely high, so you know reductions do have some impact on your NII evolution. Just curious to see whether you have any thoughts on that.

**Mr. Calderón:** Saul, Rogério. We expect the credit growth to be, next year to be more accelerated than this year. So, you should expect…we… maybe I should start saying that we have not finished all the exercise for the budget for next year, but we have most of the players in the market, and agents and analysts are pointing to around 16% credit growth for next year.

If we consider credit growth at this level probably our net interest can be - before bad debt – should be growing low single-digit. Positive, but low single-digit. And definitely considering the adjustments we are doing in our mix of the portfolio, we expect an additional growth leverage by lower level of bad debt provisions, so looking at the net interest income adjusted by bad debt provision, then this growth should be much or bigger than what I'm saying, high single-digit or even low double-digit. But when you're looking before bad debt probably low single-digit since we are adjusting the mix of the portfolio.

**Mr. Martinez:** OK, fair enough. And on overdraft?

**Mr. Calderón:** Could you repeat? We didn't…

**Mr. Martinez:** Yeah, I'm just curious if you have any thoughts… obviously it seems like overdraft rates or *cheque especial* rates from public banks have been reduced quite a bit, private banks have been slower to reduce that. Do you see any pressure on your margin coming from reductions in rates on *cheque especial*?

**Mr. Setúbal:** It's always Alfredo. I think that in terms of this overdrafts tariff, I think it's important to say that this is a very convenient product for the client. This is a product the client should use one day, two days, five days. It's not a credit that the client should remain a long period, so we have mechanisms to… when we see that the client is using in a wrong way this credit line, we provide an offer the client a different product more adjusted to the needs that he has.

So I think the difference between the banks – looking from this perspective of convenience for the client – is not very important because the client should use this for very few days and not for a long period of time.

But I would like to use your question to make some comments on tariffs and in general service that we provide. I think the competition, of course, is in the newspaper, is very aggressive and it's growing, but you have to analyze, in the case of Itaú Unibanco, we are very segmented bank. Itaú was before and Unibanco also was and we increase this segmentation of channels in our strategy in the last years.

So we have a very strong commercial area in the bank to serve all these different channels and different kind of clients and profile of clients that we have. And it is very important to say that, because our prices in terms of investment products, in terms of tariffs, in terms of credit, everything has been (always has been) adjusted to each profile and each channel of the bank.

So, the retail, because the retail use all this distribution and all the service that we provide, the private bank and the large companies, we have different strategies and different manages and different products and service. So when we see competition more aggressive and we analyze our prices, we think that the prices that we have are very competitive, because most of the banks are reducing the tariff and the service fees, they don't operate in a multichannel strategy like we do and other banks do.

So, we make some adjustments in terms of prices of tariffs, in terms of prices of some investment products, but we don't need to make much reductions or change in the strategy, because our prices are according to the profile of the client and not the same price for all the clients, that is the way some banks operate.

So, it is important to analyze that the impact of all this, in our case, because of the segmentation in products and prices, we have hundreds of thousands of clients, of Personnalite, for example – that is one of the channels that I'm mentioning – they don't pay any tariff, they don't pay for any service, because of the volume of investments, the volume of transactions they do with us, we don't charge anything from that.

So, is important to understand that what is happening in the market is affecting, of course, I'm not minimizing the impact of the competition and so on, of course this will bring less revenues from service, less revenues from tariffs, of course less spread, not only because of competition in our case, but because we are changing the mix of the credit of portfolio, but the impact is lower because we have this multichannel strategy than in other banks.

**Mr. Martinez:** Ok, that is fair enough. I appreciate the thoughtful response.

**Operator:** Excuse me, our next question comes from Mr. Victor Galliano, with HSBC.

**Mr. Victor Galliano:** Good morning, thanks for the opportunity. Just on what you were saying about provisions earlier, I mean looking at the guidance that you're giving for just the vehicles portfolio loans, I mean that comes down, should come down by around, you know, close to R$200 million, quarter on quarter and yet, you know the guidance seems very conservative. I mean, is this the case of just being conservative given, you know, what has happened during the course of the year and giving yourselves some scope here to be conservative on your estimates, or is there actually some other area outside the vehicles that in the consumer or in the very small NSME portfolio that is still being a little bit problematic in terms of credit quality? That's my first question.

And my second question really relates to the kind of de-risking and repricing of the loan portfolio. I mean, you put a very good chart in here, and on page 16 of the MD&A. You know, how do you feel this will continue to progress judging by what Rogério said about the growth of NII, we're going to continue to see quite a lot of margin and spread pressure still coming through into Q4 and Q1.

My question is: Did you feel the kind of default impact in the quarter of repricing and de-risking of portfolios in Q3 or was this just a partial effect and we're going to see much more of it in Q4 and Q1 of 13?

**Mr. Calderón:** Starting from the end, Victor, now we still see the coming quarters being adjusted because of the mix of the portfolio. What is going to happen, however, in the favor of the better results the fact that the delinquency should improve much strongly as from the second quarter next year. Why not in the first quarter? Because the first quarter, normally, is impacted by some level of seasonality that goes against the delinquency improvement.

And maybe I should link to the first part of your question; we still have some impacts on the auto loans portfolio to be reported in the fourth quarter, slightly in the first quarter next year and then vehicle should contribute much strongly to this improvement in the bad debt provisions as I mentioned before.

What we should expect is the auto loans portfolio to be back to its normality since we are not originating the same sort of credits without first or very low first down payments that cause this increasing delinquency.

I understand what you said, next quarter and first quarter, I think next quarter we still have some impacts from the auto loans and first quarter, except for seasonality, the improvement should be even bigger. Seasonality will prevent this benefit to be noticed in the first quarter, but second quarter on we should see much stronger benefits out of this.

**Mr. Galliano:** Ok, thank you.

**Operator:** Excuse me, our next question comes from Mr. Marcelo Telles, with Credit Suisse.

**Mr. Marcelo Telles:** Hi, good afternoon gentlemen. I have two questions. One is a follow-up on asset quality. I know there is the seasonality, you know, a favorable seasonality in the first quarter of the year and so on, but what would you expect in terms of reduction in the NPL ratio, if you're going to say 60 day or 90 day NPL ratio, you know, by the end of 2013? I don't know if you're able to share that with us.

And the other question is on the improvement that you posted on your commercial delinquency, you know, there was a 20 basis points decline in the quarter over quarter. What was the driver that was like the improvement in the SME segment or there was some improvement in large corporations?

**Mr. Calderón:** Ok, Marcelo, what's driving the improvements in delinquency is a long list actually. We have all the vintage without any exception, the recent origination in a better quality, asset quality than what we had before. So, with the maturity of the portfolios you should expect for improvement in all, all, without any exception, all the lines of our credit portfolio.

And signs are actually already appearing. If you look, not only the over 90 days. And I should highlight the point that even though we had some increasing in the over 90 days for individuals, we should remember that we still have some statistical impact from the reduction of the auto loans portfolios. So, what we have in the auto loans is the NPL ratio increasing despite of better origination and better delinquency because of the reduction of the total portfolio.

So this is actually not a deterioration in the delinquency but a statistical impact, if you remove that even individuals would be improving in the third quarter. So, corporate is already improving, we have the early delinquency 15 to 90 days, improving all the lines 30 basis points if you look at the data in September 30th, remembering that we had strikes, and strikes impact particularly impacts in early delinquency.

Coverage is increasing all the lines, new vintage is improving all the segments, NPL recreation is reducing, total overdue reduced in nominal terms, so any overdue more than 15 days is actually lower in September than what we posted in June. So all the signs are positive and we should see continuously these benefits.

Regarding the first part of your question on any guidance on NPL, you know, we have been trying not to give any NPL ratio guidance, we turned to guide on the total bad debt expenses. However, at the beginning of the year we announced our NPL ratio guidance saying that NPL ratio should increase in the beginning of the year, in the first portion of the year and then start to decrease to be back to the, more or less, to the same level at the beginning of the year.

So we guided the market for stability in the NPL ratio when comparing beginning of the year with the end of the year with some increasing in the first part of the year and then decreasing. We think it's going to happen exactly like what we said in the beginning of the year. It should be back to the same level of the beginning of the year and then further improvement next year since we're going to collect more benefits out of this change in our portfolio mix.

**Mr. Telles:** Thank you, Rogério, one final question if I may. Just regarding the, you know, I don't know if you could tell us what the status of the negotiation is regarding the potential changes in the treatment of tax credits for the purpose of Basel, Basel 3.

Is there anything you should, you know, can we expect maybe, you know, let's say, a software regulation, you know, in that regard? Thank you.

**Mr. Sérgio:** Hi, this is Sergio.

**Mr. Telles:** Hi Sérgio.

**Mr. Sérgio:** Hi Marcelo. We are positive that there's going to be – at least for the deferred tax asset generated by the provision for long losses – that there will be some changes. But, you know, we're following closely but we are still positive on that.

**Mr. Telles:** Thank you.

**Mr. Sérgio:** …basically on the loan and losses part.

**Mr. Telles:** Thank you.

**Operator:** Our next question comes from Mr. Boris Molin, Santander.

**Mr. Molin:** Yes, good morning. Thank you for taking my question. I had a question regarding your IT investment plan; it is a sizable project. So, I was wondering how would you expect us to see how this is going to eventually be impacting in cost, in terms of how you're going to account for this, or you're going to capitalize these software investments, or are you going to expand it? Because it could have medium term implications in 2014, in terms of efficiency and cost.

And the second part of the question is: the precise amount of the investment in new software development. So, I would like to know what are the models or if it's a complete rewrite of your IT software platform. What are the enhancements that you plan to make and what type of ulterior efficiency gains could we expect, particularly because Itaú still works with a relatively high ratio of employees per branch and how could we see this overall efficiency improving in the medium-long term, I mean it gives the impression that this is a transformation on the IT project that we should keep an eye on, so I'd like to see if you have more color on this.

**Mr. Calderón:** Boris, Rogério speaking. We, of course those investments are going to impact our total expenses, mainly as a consequence of the increasing depreciation since the investments are going to be, you know, to be done since now up to 2015.

But when we supplied you with a guidance of total expenses growing below inflation in the years 2013 and 14 this is also encompassed in that calculation. So despite of this growing or increasing depreciation over time, we still have gained in efficiency to offset and to be positive on this growing below inflation over the next 2 years. We have not the figures for the other years before that, after that, but we expect, you know, theoretically saying, we expect our improvements, our efficiency gains to be enough to compensate this.

In terms of the total investments, what we are doing, you know, IT platforms they scale up in different steps. We, last time we had strong investments on this area, was to prepare the banks for 20, 30 years. This is what we are doing now, so you should expect really these big investments to prepare the bank for the next 30 years, what means that the bank is going to gain, to make a lot of, or to collect a lot of benefits out of these investments.

You know we have some technical data on this that we could supply to you, but gains in electricity, for instance, and also in processing is almost 10 times the processing per second that we have today is going to be in the future, is really to tackle the future challenges for the bank in a growing environment.

**Mr. Molin:** Thank you very much.

**Operator:** Excuse me, our next question comes from Mr. Fabio Zagatti, with Barclays.

**Mr. Zagatti:** Hi, thanks for taking these questions. Just to make sure we all got this correct, so would you expect net interest income pre-provision to grow in the single-digit in 2013, actually I guess that you mentioned low single-digits assuming 15% credit growth and that on a post loan of provision basis, did you mean NII growth could be in the low double-digits?

And if this is indeed right, I mean even if you don't provide a ROE guidance for 2013, based on very simple math of the other assumptions that we have for OPEX mainly, is it fair to say that the risks are that ROEs should remain below, let's say, an 18% level, so below the historical levels that you previously suggested in this call?

And then I have a second question. Thanks.

**Mr. Calderón:** So, Fabio, your understanding is correct on what I have said. It's probably to grow NII before bad debt, probably to grow low single digits and probably after bad debt to be around high single-digits or low double-digits.

Regarding ROE, it's always very important to remember what we constantly say to you: guides that… what, you know, what we manage the bank based on creating spreads over the cost of capital, so every time we talk on return on equities, it is very important to remember that these figures could move depending on the cost of equity, depending on the cost of capital.

So if we consider stability on the current levels we think that the nominal level of ROE that we have reported in the third quarter is below our potential because of this abnormal level of delinquency.

So from this level we are posting today we expect improvement in the ROE. I think we'll be able to give you more precision on this in the next quarter but definitely we expect improvements from the current level to post in line with the average we have on the last 12 months.

**Mr. Zagatti:** Ok, thanks Rogério. And then I would like to ask a more thoughtful and related question. What do you think could be a trigger for improvement in market segment towards the banking sector in Brazil after all that we've been through?

With all the risk of continuing government intervention I believe we have reached to a point where, you know, a new cycle like this one in *Agência Estado* today; reading that the banks' profitability felt the lowest level since the 90's and it is a paradoxical it being a positive, because it somehow shows that the government initiatives have had some impacts so far. So, I would really like to hear from you where you guys believe that we are in the cycle of ROE compression risks being priced in. Thank you.

**Mr. Setúbal:** Fabio, it's Alfredo. Your question of course is very difficult to give a precise answer. We – looking around the world, looking other countries, like Australia, like Chile, like Canada and so on – we see that in these environments they are much more stable and much more… operating with a much lower spread and so on, the returns of the banks in these countries much higher, is around 20%, 18%.

So we are very confident that in Brazil the level of returns will be close to the historical levels of the last years'. We are operating the bank with this strategy and targeting these levels of ROEs and we think that is possible, we are seeing that is possible to operate and bring different kinds of clients in a different environment. All this is happening here in Brazil. It's interesting to show that the demand is elastic and according to the price.

In the past the banks in general, the systems were operating in the feeling that the clients don't need money, they have their own savings and investments, they will not even consider using credit in their lives. And what we are seeing is a different scenario, we are seeing clients with investments using part of these investments and savings to pay part of the mortgage and financing the rest, car is the same, so we think that all this really will bring more clients and will bring more volume to the system and we are seeing that.

Probably all this will bring NPL levels and provision for loan losses to a much lower level in the coming years. So this all together, in our view, gives us confidence that the returns will continue to be in a good level for the investors and for the founders of the system in this transition period.

You asked in what part of the curve we are in the transition period; I really don't know exactly, but I think the worst pressure passed. It doesn't mean that we are not going to see more pressure. I think probably we will continue to see more pressure because all the banks need more volume; all the banks need more revenues to compensate the pressure in spread and so on.

But looking ahead we are very calm, we are very confident that this is part of the transition period. I think the economy of Brazil will continue to grow and this will bring new clients, new opportunities, a better environment in terms of growth for the economy, that's fundamental for a strong financial system. So, I don't know exactly what part of the curve we are, but looking some years ahead I think we are very confident that the financial system will continue to serve well and in a lower spread environment, but providing good returns of capital for the investors.

And of course if all this scenario continues to be in a good direction, of course, the cost of capital that Rogério was talking in the previous answer, will reduce also. And I think is important that the system will continue to be able to provide a premium over the cost of capital and we are very confident that we'll continue to provide a premium over the cost of capital because… and probably the cost of capital will continue to reduce in Brazil, probably the interest rate all around the Europe and US and Japan and many countries will continue to be low for many, many years.

So, I think it's a new environment, we have to adjust our strategy, we have to adjust our target for this new environment of lower interest rate, lower cost of capital in the world, and Brazil is part of this, for the coming years. But is a transition period and we are confident looking ahead.

**Mr. Zagatti:** Thanks Alfredo, this is very helpful.

**Operator:** Excuse me, our next question comes from Mr. Eduardo Nishio, with Brazil Plural.

**Mr. Nishio:** Good morning, thank you for taking my question. I have two questions, first regarding Redecard; I'd like to know what will be the strategy after delisting the company in terms of pricing, in particular MDRs.

And also, regarding this topic, given the latest news on MDRs, particularly relating to some regulatory pressure to reduce the MDRs and maybe brand sharing, what do you see coming up in this front (and that is on Redecard)?

On loan and in the auto segment, what do you see? If you still see some leftovers in terms of provisions for 2013?

And on the SME segment, why not going at a faster pace now, given that the SME has a lower duration and all, and all probably the worst in terms of provision has already gone for now and therefore you would be, you know, in a better position to go back in grand market share and that segment as well, thank you.

**Mr. Setúbal:** This is Alfredo, I'm answering the second question. I think that when you analyze the credit portfolio for SMEs what we are doing in this direction of reducing the risk of our portfolio is to reduce the risk, the credit portfolio for very small and small companies. If you analyze the pure middle company, middle market company, our portfolio is growing in a very good pace, but this is offset by the reduction of the small and very small credit portfolio.

And why are we doing that? Because it's very difficult to increase the quality of the portfolio in this segment. I think we are increasing the collaterals, we are doing something, but there's a limit that, what kind of collateral and guarantee that these kind of companies can't provide to us. So, we are reducing very small and small companies to the limit where we think the collateral and the guarantee is good. And this is different in the traditional middle market company that we are growing and continue to grow. This I think we have still one quarter yet to adjust, this small and mid-size… small and very small portfolio.

**Mr. Calderón:** Nishio, Rogério, addressing the first part, regarding Redecard. I think what is important to highlight here is then when we brought Redecard to our (inaudible – from 1:25:43 to 1:25:48) as you all know to have a better ability to scale up the business in Redecard by gathering different products, so with a new actually, I think in some way you should say that we, we have designed a new model to operate Redecard in which we should be able to get to growing volumes, we've gained in synergy both from administrative side and particularly on different revenues streamline since we'll be able to supply Redecard with a much broader list of products. That's the reason for this strategical movement and this is what's going to happen over the coming periods.

Particularly when you addressed the MDR, there are lots of chains in the dynamics of the business and it may be, we may see some additional pressure on MDR, but the whole strategy that we are addressing Redecard is actually to offset this, to compensate with much broader volumes and products looking at Redecard from a different perspective. And always you should remember that when we look at the credit card business we are looking at a market, at a segment that is growing on average 20% year on year, for 3 or 4 years on a row, so it's really plenty of opportunities to come and we are trying to collect all the benefits of this growing environment.

**Mr. Nishio:** Ok, so no… not really a strong pressure on MDRs you're seeing for 2013, 14, right?

**Mr. Calderón:** From the perspective of Redecard we'll be able to overcome with any marginal pressure on MDRs with the strategy as a whole.

**Mr. Nishio:** Ok, and on the auto segment any leftovers for, in terms of (inaudible – 1:28:05) for 2013 or will be clean 2013?

**Mr. Calderón:** No, it's going to be cleaner this from 2000… actually we may have some residual in the beginning of the year, but it's not really worthwhile.

**Mr.Nishio:** Ok, thank you.

**Mr. Calderón:** Thank you.

**Mr. Setúbal:** We still have a question, I think.

**Operator:** Excuse me, our last question comes from Mr. Jorg Friedemann, with Bank of America.

**Mr. Friedemann:** Thank you very much for taking my question. Actually it's a follow-up on the Redecard issue. I just like to hear your opinion about the recent turmoil on the sector, more regards with the potential regulatory scrutiny in the business. So, any chances that, you know, to you to classify as more likely the business model to change and going forward, you know, to have a new regulatory body that will be in charge of the sector and so on and so forth? Thank you.

**Mr. Calderón:** Jorg, actually we have been preparing our business in credit cards and Redecard and Hipercard actually from the last 2 years to face the changes in the business environment. Of course this is, you know, when you look at the future, it's possible that we have some additional movements. I think we should not deny this possibility, but does not mean that this is likely to happen. It's possible, and what we've been doing is actually to do all that is possible for us to be able, you know, to be in good shape despite of any additional pressure. Remember that even with pressure, this is a very good market with a very attractive growing perspective, profitability. Now we have a new opportunity to enhance the business here inside Itaú. It's really very positive for us.

**Mr. Friedemann:** So, just to clarify, Rogério.

**Mr. Calderón:** And maybe the best, the best example on this is the fact that even under this turmoil, as you said, we never changed the price offering that we have offered since the beginning of this transaction. Despite of this additional pressure, we still had the confidence that the future, the cash flows, etc. of the business could be defended.

**Mr. Friedemann:** Yeah, I think that the biggest concern that the market has at the business at the moment is of potential political interference. So, my question is more: according to the recent discussion that we, I'm pretty sure that you guys have with government officials, you don't feel anything disruptive to be coming on?

**Mr. Calderón:** We have no further comments on this, Jorg. It would be speculative to, you know, to say if we believe the government is going to do one thing or another thing. It's possible. We should be prepared to do, you know, to take the best from our business, not to be concerned with any other thing. The business model was designed to protect our ability to keep posting good results on this business. That's what I could add.

**Mr. Friedemann:** Ok, now perfect and taking that into consideration, would it be fair to assume that even though NII will be under pressure as you commented already, fee income would still be in a good position next year, potentially flirting with the double digit?

**Mr. Friedemann:** Perfect, actually when we mentioned that our strategy is actually converting into reality when you look at the figures with revenues, spreads reducing but the mix changing, etc, and loan and loss provision should be lower in the future, efficiency should be collected, we also should add that we have a very positive view on fee income to grow and Redecard is a very important part and partial of this strategy.

**Mr. Friedemann:**Ok, thank you very much, thank you.

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

**Mr. Setúbal:** Thank you everybody for participating in this conference call, and just to add that we continue to be very confident in the strategy of reducing the risk of our credit portfolio, controlling expenses to provide good returns in the coming years for our shareholders. Thank you and we are here for any questions that you still have and going to be together again in the beginning of next year to the results of the fourth quarter. Thank you.

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