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Risk Management - Circular No. 3,477

Itaú Unibanco Holding S.A.

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Objective

This document aims to present the information of Itaú Unibanco Holding S.A. (Itaú Unibanco) required by Central Bank of Brazil (BACEN) Circular No. 3,477, of December 24th, 2009, which provides on the disclosure of information related to risk management, Required Referential Equity (PRE) and to the adequacy of the Referential Equity (PR), in conformity with the internal information disclosure policies of Itaú Unibanco.

For additional information to that mentioned above, we recommend you consult the other reports that are publicly available at www.itau-unibanco.com/ir.

Introduction

On November 3rd, 2008, the largest private financial conglomerate in Brazil, Itaú Unibanco, was created, becoming one of the ten largest banks in the world in market value. Itaú Unibanco arose from the merger of Itaú, founded in 1944, with Unibanco, founded in 1924, bringing together the values and principles established over more than eight decades of history.

By means of a segmented business strategy, Itaú Unibanco operates mainly in Brazil, and abroad, and its shares are traded at the São Paulo Stock, Mercantile and Future Exchange *(BM&FBOVESPA)*, New York Stock Exchange (NYSE) and Buenos Aires Stock Exchange (*BCBA*), participating in all areas of the economic activity and playing a lead role in many segments of the industry. Itaú Unibanco has structures, products and services developed to meet the specific needs of the many different client profiles, including individuals and very small, small, medium and large-sized companies, government authorities, institutional investors, high-income individuals and clients with large equities.

Additionally, Itaú Unibanco also manages activities of underwriting, custody, securities brokerage, credit cards, consortiums, insurance, capitalization and pension plan, vehicle financing and financing transactions to non-current account holders of “C” and “D” (lower) social classes.

The company is always committed with good Corporate Governance practices, always in search for transparency with its many strategic stakeholders in order to create value for its stockholders. The financial soundness of the conglomerate is recognized by high levels of capitalization, profitability, asset liquidity, cash generation and risk management to prepare Itaú Unibanco for:

- Strengthening its support to Brazilian companies in its local and foreign operations;
- Expanding its operations in Brazil;
- Supporting the growth of our client’s loan operations;
- Competing in the international market;
- Creating economy of scale in all client segments; and
- Exploring significant synergies in many business activities.

The coverage of Itaú Unibanco’s service network includes all regions of the Brazilian territory. The presence and international robustness of Itaú Unibanco are reflected in its broad network of operations abroad, showing that it is a company that has global objectives and reinforcing the support to Brazilian companies in its foreign operations. For further information on Itaú Unibanco merger, see our hot site[1].

[1] http://ww13.itau.com.br/PortalRI/HTML/port/hotsite_itau_unibanco/index.htm

1 Risk Management

Itaú Unibanco regards risk management an essential instrument for optimizing the use of resources and selecting the best business opportunities in order to achieve the best risk-return ratio.

Risk management at Itaú Unibanco is the process where:

- Existing and potential risks in the bank's operations are identified and measured;
- Risk management and control policies, procedures and methodologies are approved with the guidelines of the Board of Directors and the bank's strategies;
- The bank's risk portfolio is managed with respect to the best risk-return ratios.

The purpose of the identification of risks is to map the internal and external risk events that may affect the strategies of the business and support units, as well as the achievement of their goals, with potential impacts on the bank's results, capital and liquidity.

This process permeates the entire institution and has the full involvement of the Senior Management and Board of Directors, which, through Superior Committees and Commissions, determines the overall objectives that are measured as targets and limits to the risk management business units. The control units, in turn, support the bank's management by means of monitoring procedures and risk analysis. Itaú Unibanco considers aspects of risk appetite in the risk management of the institution, in line with international best practices.

In order to meet the provisions of National Monetary Council (CMN) Resolution No. 3,988 of June 2011, Itaú Unibanco is in the process for establishing and implementing its Capital Management structure. The Board of Directors has recently approved the appointment of the officer in charge and the establishment of the organizational structure necessary to meet the resolution requirements, applicable to the whole financial conglomerate and to the other companies of the economic and financial consolidated.

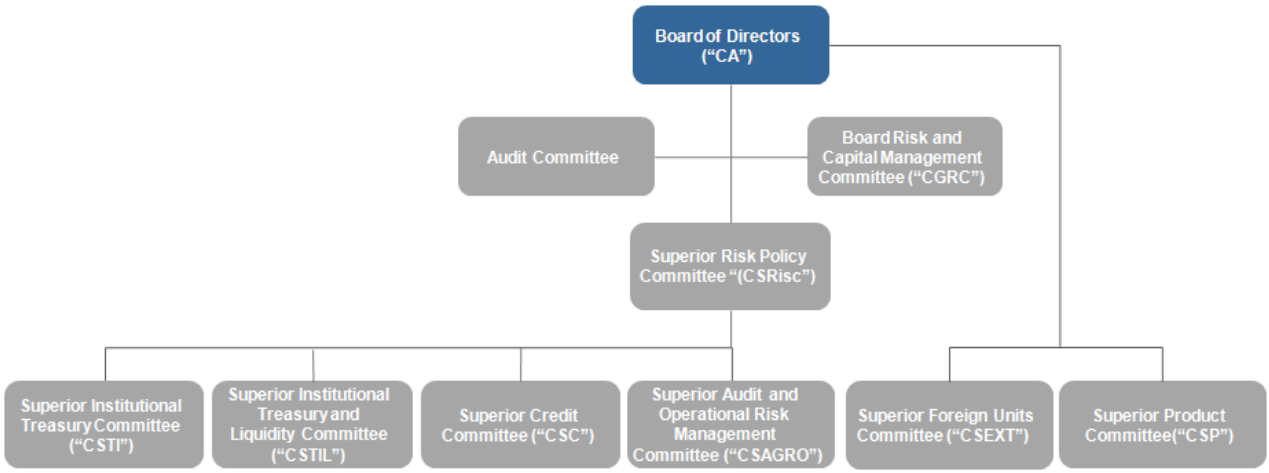
1.1 Centralized Control

Itaú Unibanco's risk management organizational structure is compliant with the recommendations suggested by the Basel Committee. The market, credit, liquidity, operational and insurance risk control structure is centralized at Itaú Unibanco in order to ensure that the risks of the conglomerate are managed in accordance with the policies and procedures in place. The purpose of the centralized control is to provide the Senior Management and the Board of Directors with a global view of the exposures of the conglomerate to risks so as to optimize and speed up corporate decisions.

This structure is responsible for monitoring the regulatory demands made to the leading institution of the conglomerate. Itaú Unibanco manages proprietary IT systems to fully meet the capital reserve rules for capital portions pursuant to BACEN's determinations and models. It also coordinates actions to verify the adherence to the qualitative and quantitative requirements established by the proper authorities to maintain the minimum capital required.

1.2 Structure of the Committees and Superior Commissions Responsible for Risk Management

Itaú Unibanco established Committees responsible for risk management that report directly to the Board of Directors and the members of these Committees are elected or appointed by this body. At the executive level, risk management is performed by the Superior Commissions, all of which are chaired by Itaú Unibanco's Chairman.



Board Risk and Capital Management Committee (CGRC)

The CGRC is responsible for supporting the Board of Directors in the performance of its functions related to Itaú Unibanco's risk and capital management, submitting reports and recommendations for the analysis of the Board for deliberation with respect to:

- Supervising Itaú Unibanco's risk management and control activities, for the purpose of ensuring their adequacy to the risk levels assumed and to the complexity of operations, as well as complying with regulatory requirements;
- Reviewing and approving capital management policies and strategies that establish mechanisms and procedures aimed at maintaining capital compatible with the risks incurred by the institution;
- Determining the minimum return expected on the capital of Itaú Unibanco as a whole and of its business lines, as well as performance monitoring;
- Supervising incentive structures, including compensation, aimed at ensuring their alignment with risk control and value creation objectives;
- Promoting the improvement of Itaú Unibanco's risk culture.

Audit Committee

There is a single Audit Committee for the institutions authorized to operate by BACEN and for the companies supervised by the Superintendence of Private Insurance (SUSEP) that are part of the Itaú Unibanco conglomerate. In accordance with its internal regulation, which was approved by the Board of Directors, the Audit Committee is responsible for supervising:

- Internal controls and risk management processes;
- Internal audit activities; and
- Activities of the independent auditors of the Itaú Unibanco conglomerate.

The Committee is also responsible for taking care of:

- The quality and completeness of the financial statements;

- The compliance with legal and regulatory requirements;
- The performance, independence and quality of the independent auditors' work;
- The performance, independence and quality of the internal auditors' work; and
- The quality and effectiveness of the internal controls and risk management systems.

In addition, the Committee shall, individually or together with the respective independent auditors of the Itaú Unibanco conglomerate, formally communicate to BACEN and SUSEP about possible evidences concerning the following:

- Non-compliance with legal and regulatory rules that may put the continuity of the any of the companies of the Itaú Unibanco conglomerate at risk;
- Frauds of any degree committed by the administration of any of the companies of the Itaú Unibanco conglomerate;
- Relevant frauds committed by the employees of any of the companies of the Itaú Unibanco conglomerate or by third parties; and
- Errors that result in material inaccuracies in the financial statements of any of the companies of the Itaú Unibanco conglomerate.

Superior Risk Policy Committee (CSRisc)

The CSRisc meets, at least, every two months and it is responsible for:

- Establishing general risk policies that determine the performance and approval levels for the specific forums that are the managers of each type of risk;
- Approving the procedures necessary for the effective compliance with the policies and processes established;
- Approving decisions about taking risks with great impact on capital and review the decisions taken by other Committees within its approval hierarchy;
- Setting limits combined by type of risk;
- Ensuring, over time, the consistency of risk management in the holding company;
- Monitoring the process for implementing risk management tools.

Superior Institutional Treasury Committee (CSTI)

The meetings of this Committee are held on a monthly basis. Its main responsibilities are to discuss and decide, within the authority delegated by the CSRisc:

- On the exposure limits for market risk and the maximum loss limits (VaR) of trading and banking books positions (including conditions of stress for each risk type) based on those determined by CSRisc, which may include the establishing of additional controls and limits, when necessary;
- On the guidelines for the work and decision-making authority delegated to the Institutional Treasury Management Committee (CGTI);
- On the retention periods of the main types of risks in view of the amount of the positions and market liquidity;
- On the positions under the management of this Committee of trading and banking books;
- On the risk control models and procedures, including those additional to those delegated by the CSRisc;
- On matters and limits related to treasury operational risk;
- On stop loss policies;
- On incentive policies;
- On accounting hedge strategies.

Superior Institutional Treasury and Liquidity Committee (CSTIL)

The meetings of this Committee are held on a quarterly basis. Its main responsibilities are:

- To control liquidity limits;
- To analyze the current and future levels of liquidity and to take actions to promote a safe and efficient progress for the cash flows of the holding company;
- To discuss and decide within the authority delegated by the CSRisc:
  - On the maximum levels of liquidity mismatch (GAP) for the various terms and currencies, minimum levels of reserves in local and foreign currency based on those determined by the CSRisc, and it may also establish additional controls and limits, when necessary;
  - The guidelines for action and decision-making powers delegated to CGTI;
  - The retention period of the main risks' types, given the positions' size and market liquidity;
  - On the policy for raising and investing funds in the domestic and foreign financial market;
  - On the criteria and rules for setting internal transfer prices of resources in the companies of the conglomerate;
  - On the strategies for financing the portfolios of the group;
  - On the criteria and models for assessing liquidity risk;
  - On contingency plans;
  - On matters and limits related to operational treasury risk.

Superior Credit Committee (CSC)

The CSC meets on a weekly basis to discuss the credit risk of the conglomerate. Its main responsibilities include:

- The establishment of corporate credit policies and the coordination of internal rules on credit limits to grant financing and bank guarantees;
- The determination of authority levels to approve loan limits and operations for intermediate authority levels and other credit Commissions and Committees;
- The establishment of credit limits and approval of loan operations for clients or economic groups that exceed those of the intermediate authority levels;
- The review of transactions for which at least one voting member of the intermediate authority level is against or those which, due to their relevance or special characteristics, the Committee decides to submit to its analysis;
- The analysis of the quality of the consolidated credit portfolio of Itaú Unibanco.

Superior Audit and Operational Risk Management Committee (CSAGRO)

The purpose of this committee is to understand the risks associated with Itaú Unibanco's processes and business, the guidelines for managing operational risks, and assess the results from the operation of the Itaú Unibanco Internal Control and Compliance system. Its responsibilities include:

- The analysis of audit results, emphasizing those matters relating to policies, investments and structure, and the determination and monitoring of actions;
- The determination of operational risk management guidelines;
- The monitoring of the development of models for the provision for losses and allocation of capital to operational risk;
- The analysis of the results of Internal Controls, Operational Risks and Legal Compliance areas.

Superior Product Committee (CSP)

The CSP is the maximum level to approve products/operations/services/processes in Itaú Unibanco

The main responsibilities of this Committee include:

- Evaluate products, operations, services and processes that are beyond the decision boundaries of the Committees' Products;
- Ensure adherence of products, operations, services and processes to the needs of clients/segments (suitability);
- Evaluate products, operations, services and processes that involve risk to the image of Itaú Unibanco.

Superior Foreign Units Committee (CSEXT)

The purpose of the CSEXT is to supervise businesses abroad and this is the highest level of authority for approving products, transactions, services and processes on the markets where Itaú Unibanco operates outside Brazil. The main functions of this Committee are:

- To ensure that the business initiatives are supported by the corporate governance of the parent company in the following areas: accounting, corporate tax, financial and liquidity, risk control, credit policies, internal control, audit and technology;
- To make decisions with respect to products, operations, services and processes that are not covered by the local Committees or that involve risks to the image of Itaú Unibanco on the markets where it operates outside Brazil.

1.3 Credit Risk

The credit risk is the possibility of losses associated with the failure by the borrower or counterparty to fulfill their respective financial obligations under agreed upon terms, the depreciation of the credit agreement arising from the deterioration of the borrower's rating, the reduction of gains or remuneration, the benefits granted upon renegotiation and the recovery of costs.

In line with the principles of CMN Resolution No. 3,721, of April 30th, 2009, Itaú Unibanco's credit risk management structure and policy are approved by its Board of Directors, applicable to companies and subsidiaries in Brazil and abroad.

Itaú Unibanco's credit risk management aims at maximizing the risk-return ratio of its assets, maintaining the credit portfolio quality at levels that are appropriate to the market niches in which it is operating. The strategy is aimed at creating value to its stockholders in order to yield returns higher than the minimum value adjusted to the risk of each business.

The governance of the credit risk management is conducted through collegiate bodies that are subordinated to the Board of Directors or the executive structure of Itaú Unibanco and act primarily by assessing the competitive market conditions, setting the credit limits of the conglomerate, reviewing control practices and policies and approving the actions at the respective authority levels. The risk communication and reporting process, including the disclosure of policies on credit risk management, also derives from this structure.

The credit risk control is carried out by an independent executive area responsible for risk control, separated from the business units and the internal audit, as required by regulation. As regards the credit risk control processes, the risk control area has the following responsibilities:

- Preparation of corporate guidelines for credit risk control;
- Governance of model development;
- Validation of credit models;
- Assessment of credit policies and their forwarding for approval by the respective level;
- Evaluation and approval of new products;
- Assessment of the calculation of the parameters of the portfolio's risk and return.
- Determination of rules and follow up of allowance for loan losses;
- Consolidated portfolio monitoring;
- Calculation and monitoring of the PR.

Itaú Unibanco's credit policy is developed on the basis of internal factors, such as the client rating criteria, performance of and changes in portfolio, default levels, return rates, and the allocated economic capital; and external factors, related to the economic environment in Brazil and abroad, including market share, interest rates, market default indicators, inflation and changes in consumption.

Itaú Unibanco's centralized process for validating and approving credit policies and models ensures the timing of credit actions and the optimization of business opportunities.

Credit Risk Measurement

Itaú Unibanco maintains control over credit risk on a centralized basis, whereas credit risk management is carried out by each business unit.

The centralized monitoring of portfolios is carried out by an independent executive area responsible for controlling credit risk, which uses risk and performance indicators to analyze the credit portfolio on an aggregate basis, by business line, segment, product and other variables that it deems relevant.

With such actions, it aims at aligning the strategies established by the organization with possible changes in the credit scenario on an ongoing basis.

The decentralized management of portfolios, focused on management, is performed by all credit areas of the business units, which assess the portfolios on a detailed level.

Itaú Unibanco strictly controls the exposure to clients and counterparties credit, taking action to remedy occasional situations in which the actual exposure exceeds the desired one. In this sense, a series of

measures provided for in contract may be adopted, such as the right to demand early payment or requirement of additional guarantee.

Itaú Unibanco considers in the loans three components to quantify the credit risk: the client´s or counterparty´s probability of default (PD), the estimated exposure in the event of default (EAD), and the loss given default (LGD). Assessment of these risk components is part of the process for granting credit and for managing the portfolio.

The credit risk rating of customers and of economic groups reflect their probability of default, and is a fundamental element in the process for measuring risk, because it is used to calculate the credit limits.

The credit rating for wholesale transactions is based on information such as economic and financial condition of the potential borrower, its cash-generating capabilities, the economic group to which it belongs, the current and prospective situation of the economic sector in which it operates, the guarantee offered and the use of credit. The credit proposals are analyzed on a case-by-case basis through a structure of approval levels that ensures the detailed observation of transaction risk, as well as the necessary timing and flexibility in their approval.

With respect to retail transactions (individuals and small and medium businesses), the rating is assigned based on statistical models of application and behavior score in line with the Basel Committee requirements. The decisions are made based on scoring models that are continuously monitored by an independent structure by means of the evaluation of the result of their application in the groups to which credit was granted. Extraordinarily, an individual analysis of specific cases may be performed, in which case credit approval follows the applicable approval levels.

The institution rates government securities and other debt instruments are classified in according to their credit quality with the purpose of managing the credit risk exposures.

1.4 Market Risk

Market risk is the possibility of losses resulting from fluctuations in the market values of positions held by a financial institution, including risks of transactions subject to variations in foreign exchange rates, interest rates, equities and commodities prices.

Market risk management is the process by which an institution plans, monitors and controls risks of variations in financial instruments market values, aiming optimization of the risk-return ratio through adequate limits structure, models and management tools.

Itaú Unibanco uses proprietary systems to measure the consolidated market risk. The processing of these systems occurs mainly in Sao Paulo in a local with controlled access, high availability, with stores and data recovery, and has the infrastructure to ensure business continuity in case of contingency (disaster recovery). Currently there is an analysis process on the use of market solutions to complement the technological architecture of risk as part of the evolutionary process to meet future regulatory requirements and management.

The market risk control carried out by Itaú Unibanco covers all financial instruments contained in all portfolios of the companies under its responsibility. In this respect, Itaú Unibanco's market risk management policy is in line with the principles of CMN Resolution No. 3,464, of June 26th, 2007, constituting a set of principles that guide the institution's strategy of market risk control and management in all conglomerate business units and legal entities of the Itaú Unibanco group.

The document that details these guidelines is on the Investor Relations website www.itau-unibanco.com/ir, in the route: Corporate Governance, Rules and Policies, Public Access Report - Market Risk.

Itaú Unibanco's strategy is based on a comprehensive and complementary use of methodologies, as well as quantitative tools to estimate, monitor and manage risks, in line with best market practices.

In this context, Itaú Unibanco's risk management strategy is aimed at balancing corporate business goals, taking into account:

- Political, economic and market conditions;
- Market risk portfolio of the institution;
- Expertise to operate in specific markets.

The market risk control is conducted by a group that is independent from the front office and that is responsible for performing the daily activities of risk measurement, evaluation and reporting by means of its control units established within the legal entities of the Itaú Unibanco group. Moreover, the executive structure carries out the consolidated monitoring, evaluation and reporting of market risk information, including any extrapolations of risk limits, reporting the event to the business unit responsible and monitoring the necessary actions to readjust the position and/or level of risk. For this, the bank has a structured process of communication and information which provides information to senior management Committees and to ensure compliance with the requirements of Brazilian and foreign regulatory agencies.

The market risk management and control process is subject to periodic reviews, to ensure that it is aligned with best market practices and that it reflects continuous improvement processes implemented throughout Itaú Unibanco.

According to transaction classification criteria defined in CMN Resolution No. 3,464 and in BACEN Circular No. 3,354, of June 27th, 2007, and the New Capital Accord – Basel II, Itaú Unibanco's financial instruments, including all transactions with derivatives, are segregated in trading and banking books. Market risk assessment is performed using this same portfolio segregation.

The trading book consists of all transactions, including derivatives, held with intent to trade in the short term or to hedge other financial instruments of this book, and that have no restriction on their trading. They are intended for obtaining profit from the changes in actual or expected prices in the short term or arbitrage execution.

The banking book is composed of transactions that are not classified in the trading book. It's consists of transactions held without intent to trade in the short term and their respective hedges, as well as transactions executed for the active management of financial risks, which transactions may be executed with or without derivatives.

Itaú Unibanco hedges transactions with clients and proprietary positions, including its foreign investments, aiming to mitigate risks derived from prices fluctuations of the relevant market risk factors and take the trades thought the ongoing exposition limits. Derivatives are the instruments commonly used for these hedging activities. When these transactions are classified as hedge accounting, specific supporting documentation is provided, including the continuous follow-up of the hedge effectiveness (retrospective and prospective) and other changes in the accounting process. The hedges accounting and economic procedure are governed by the internal policies of Itau Unibanco.

Hedge Accounting subject is presented in detail in explanatory notes of the Financial Statements.

The market risk exposures that underlie various financial instruments, including derivatives, are decomposed in risk factors. A risk factor refers to a market parameter whose variation impacts an institution's results. The main risk factors measured by Itaú Unibanco are as follows:

- Interest rates: risk of losses from transactions subject to interest rates variations, including:
  - Fixed income interest rates denominated in reais;
  - Interest rate index linked interest rates;
- Foreign exchange linked: risk of losses from positions in transactions subject to the foreign exchange linked interest rate;
- Foreign exchange rates: risk of losses from positions in foreign currencies, in transactions subject to foreign exchange rate variation;
- Price index linked: risk of losses from transactions subject to the variations of price index linked interest rates;
- Equities: risk of losses from transactions subject to equity price variations.

The treatment of market risk for the interest rate of the non-trading book is the adoption of the method of marking to market of many products, determining sensitivity to interest rate variations and shocks, Value at Risk (VaR) and Earning at Risk (EaR), as established in Itaú Unibanco's internal policies.

For evaluating positions in shares of the trading and commercial portfolios, Itaú Unibanco uses VaR, in addition to applying stress tests, as presented in the paragraph on metrics below. For regulatory purposes, the regulations of BACEN regarding the portion of market risk for shares, described in item 3 – Required Referential Equity of this publication are observed.

The Itaú Unibanco market risk management process is subject to the governance and hierarchy of Committees and limits are specifically approved for its support, covering from aggregated risk indicators to granulated limits, guaranteeing effectiveness and coverage of control. These limits are calibrated based on evaluations of projected results on future balance sheets, amount of shareholder's equity and risk profile of each legal entity, being defined in terms of risk measurement and used on the risk management process. The limits are monitored in a daily basis and its excesses are reported and discussed at the competent Committees.

The structure of limits is established and approved by the CSRisc after discussions and resolutions of the CSTI on market risk metrics and limits.

- Demonstrate to all levels of executives that the assumption of market risk is in line with risk-return objectives of the bank, promoting dialogue disciplined and well-informed about the risk profile and its evolution;
- Increase transparency on how the business reaches to optimize the results;
- Provide early warning mechanisms to facilitate effective risk management, without obstructing the business objectives, and
- Avoid concentration risks.

The limits are monitored and trigger alerts starting deliberative discussions about the positions

Market risk is analyzed based on the following metrics:

- Value at Risk (VaR): statistical metric that quantifies the maximum expected potential economic loss in normal market conditions, considering a defined holding period and confidence interval. Applied to group of risk factors;

- Losses in Stress Scenarios (Stress Test): simulation technique to evaluate the impact, in the assets and liabilities portfolio, of various risk factors in extreme market situations (based in prospective scenarios);
- Stop Loss Alert: effective losses added to the potential maximum loss in bullish and bearish scenarios;
- Earnings at Risk (EaR): measure that quantifies the impact on the impact on the unrealized profits of a certain portfolio, taking into consideration normal market conditions, time horizon related to the longest operation of the commercial portfolio and a pre-determined confidence interval.

In addition to the risk metrics described above, sensitivity and loss control measures are also analyzed. They include:

- Gap Analysis: accumulated exposure, by risk factor, of the cash flows, marked-to-market, positioned in their settlement dates;
- Sensitivity (DV01): impact on the market value of cash flows when a 1 annual basis point change is applied to current interest rates. Applied to risk factors;
- Sensitivities to Various Risk Factors (Greeks) - partial derivatives of a portfolio of options on the prices of the underlying assets, implied volatilities, interests rates and time; and
- Stop Loss: maximum loss that a portfolio classified in the trading book is authorized to reach.

1.5 Liquidity Risk

The liquidity risk is defined as the occurrence of imbalances between tradable assets and falling due liabilities - mismatch between payments and receipts - which may affect the institution's payment capability, taking into consideration the different currencies and settlement terms of their rights and obligations.

The liquidity risk management aims at using the best practices so as to avoid cash shortages and difficulties to meet payables due.

Itaú Unibanco has a structure dedicated to improve monitoring, control and analyses by applying models of statistical and economic/ financial forecasts of the variables that impact cash flows and the level of local and foreign currency reserve.

In addition, the institution establishes guidelines and limits and the compliance with which is periodically reviewed by technical Committees to ensure an additional safety margin to the projected minimum requirements. The liquidity management policies and related limits are established based on prospective scenarios periodically reviewed, as well as on the directives of the senior management.

These scenarios may be reviewed in the light of cash requirements due to atypical market conditions or arising from strategic decisions made by the institution.

Pursuant to the requirements of CMN Resolution No. 2,804, of December 21st, 2000, and BACEN Circular No. 3,393, of June 03rd, 2008, Itaú Unibanco monthly delivery its Liquidity Risk Statements (DLR) to BACEN and the following items are regularly prepared and submitted to the senior management for monitoring and decision support:

- Different scenarios for liquidity projections;
- Contingency plans for critical situations;
- Reports and charts to enable monitoring risk positions;
- Evaluation of funding costs and alternatives;
- Tracking the sort of funding sources trough a continuous control of funding sources considering counterparty type, maturity and others aspects.

1.6 Insurance Risk

The insurance risk is the possibility of losses that go against the organization's expectations, directly or indirectly associated with the technical and actuarial bases used for calculating premiums, contributions and technical provisions, arising from insurance, pension and capitalization operations.

The control of the insurance company risk is centralized by the risk control area, which is separated from the business units and internal audit. This area has the responsibility of developing internal risk measurement models, as well as creating conditions for the validation and control of these models. The risk control area is also in charge of the assessment of changes in policies and the monitoring of the performance of the insurance, pension plan and capitalization portfolios.

The business units should enframe the products to the legal requirements and internal rules. These units are responsible for providing databases and information to management reports and specific studies, thus ensuring the quality of the information used in the models of probability and severity of claims.

Besides, with the purpose of standardize practices and risk controls throughout the conglomerate, the risk control area establishes corporate policies for determining the institutional guidelines regarding the topics related to insurance risks.

The assessment of new products and business proposals that involves insurance risks ensures their adequacy to the legal and regulatory requirements and estimates risk-adjusted profitability. Each commercial action is analyzed based on the increase of the risk generated and evaluated by the authority level determined in the internal policies.

Similarly to Basel II, the IAIS (International Association of Insurance Supervisors) recommends that the insurance companies should have a risk management system so as to supplement the minimum capital and solvency margin system.

Risk control governance establishes thresholds for risks between insurance and credit, in accordance with the National Council of Private Insurance (CNSP) Resolution No. 228, of December 06th, 2010. The internal policy defines the credit risk quality of reinsurance companies and the concentration limits in accordance with CNSP Resolution No. 168, of December 17th, 2007, following the same credit governance of the conglomerate.

1.7 Operational Risk

The operational risk is the possibility of losses resulting from failure, deficiency or inadequacy of internal processes, people and systems or external events. It includes legal risk coupled with inadequacy or deficiency in contracts signed by the institution, as well as penalties due to noncompliance with laws and punitive damages to third parties arising from the activities undertaken by the institution. This definition excludes strategic and reputation risk.

The operational risk events include:

- Internal fraud;
- External fraud;
- Labor demands and deficient security in the workplace;
- Inadequate practices related to clients, products and services;
- Damages to own physical assets or assets in use by the institution;
- Interruption of the institution's activities;
- Failures in information technology systems;
- Failures in the performance, compliance with deadlines and management of activities at the institution.

The increasing sophistication of banking environment and business and the development of technology make the risk profiles of organizations more complex, clearly outlining this class of risk, and although the management of which is not a new practice, it now requires a specific structure, different from those traditionally adopted for credit and market risks.

Therefore, the operational risk management is important because it ensures the identification, assessment/measurement, response, monitoring and reporting of the exposure to the organization.

Itaú Unibanco's operational risk management structure benefits from the environment and culture of its businesses, which foster a high level of ethical behavior in the performance of their activities.

The strategic management of operational risk governance is carried out by the organization's management under the supervision of the Audit Committee, which is a body of the Board of Directors.

The corporate areas responsible for managing operational risks are subordinated to two different vice chairman's offices, one of which is responsible for management and, the other, for controlling the operational risk, but they both work towards providing a robust framework for risk management that is suited to the nature and complexity of products, services, activities, processes and systems of the organization.

In addition to the existence of corporate areas as the basis of the entire operational risk management process, Itaú Unibanco also counts on the Superior Committee CSAGRO, which supervises the operational risk management of processes and business activities through combined operational risk indicators, monitoring the action plans and evaluating the effectiveness of the controls. Meanwhile, the decisions on capital measurement models and risk control policies are made by the Superior Committee CSRisc.

In line with the principles of the CMN Resolution No. 3,380, of June 29th, 2006, Itaú Unibanco formulated an operational risk management policy approved by its Board of Directors and to be followed by its local and foreign companies and subsidiaries.

The policy is comprised of a set of principles, procedures and tools that provide a permanent management adequacy of products, services, activities, processes and systems to their nature and complexity.

The structure formalized in this policy establishes procedures for identifying, assessing, mitigating, monitoring and reporting operational risks, as well as the roles and responsibilities of the bodies that participate in this structure.

The operational risk management at Itaú Unibanco takes place in a continuous improvement cycle and comprises five major stages:

- Identification: mapping of processes, risks and controls and capture of losses within a continuous process;
- Assessment/Measurement: assessment and measurement of risks through the analysis of severity and the probability of the risk becoming real;
- Response: responses to risks comprise four separate actions – mitigate, take, share or avoid risk;

- Mitigation: responses to the risks involved through preventive and/or corrective controls;
- Monitoring: control of exposure to the relevant risks by means of indicators;
- Reporting: presentation of the status and results of the assessment, response and monitoring of risks in several governance forums.

The reports on operational risks are treated on an individual basis by executive areas/business units and also on a consolidated basis, where the occurrences of risks and risk mitigation and contention actions are evaluated and the main items are presented to the Board of Directors and the Superior Committee CSAGRO.

To ensure the proper awareness of the importance of the operational risk management, and of the roles and the responsibilities involved in such management, Itaú Unibanco uses channels that ensure the dissemination of these concepts to all employees of the institution by means of policies, standards and procedures.

Through the management process and based on the mapping of processes, it is possible to identify and assess the operational risks, as well as adequately respond to such risks. Among the possible risk response actions are the following:

- Mitigate: measures for reducing risk probability or impact or even both;
- Take: no measure is adopted for changing risk probability and/or severity;
- Share: reduction in risk probability or impact by transferring or sharing a portion of the risk;
- Avoid: discontinuation of activities that pose risk.

Therefore, considering the materiality of the risk and the cost-benefit ratio of controls, it is possible to opt for mitigating risk. Mitigation actions comprise control mechanisms developed for ensuring that the probability of incurring risk or its severity is reduced, or even both. There are four types of risk mitigation:

- Insurance: one of the main mechanisms for reducing the severity of operational risk. The existing types of insurance are insurance of assets, social responsibility and damages to third parties;
- Business continuity plan: alternative to the current process flow that reduces the impact of a temporary interruption when an extraordinary event occurs in the organization;
- Control implementation and review: the control system shall be stable, solid and efficient to avoid unstable behavior, enabling the evaluation to determine its level of efficiency in relation to risks;
- Redesign of process: the redesign of business processes provides means to rethink and modify associated business processes, systems and organizational structures, aiming at reducing or eliminating associated risk factors.

1.8 Crisis Management and Business Continuity

Effective business continuity measures have a crucial role in the life of a financial institution. With this in mind, Itaú Unibanco, a financial institution that has a significant role in the Brazilian financial system, has been developing throughout its history procedures to minimize impacts related to possible interruptions inherent to its business.

The purpose of Itaú Unibanco's Business Continuity Program is to protect its employees, ensure the continuity of the critical functions of its business lines, safeguard revenue and sustain both a stable financial market in which it operates and the trust of its clients and strategic partners in the provision of services and products.

The Program is composed of procedures for relocating and/ or recovering operations in response to a variety of interruption levels, through stages that involve but are not limited to: the safeguard of its employees and assets of the institution; resumption of operations, ensuring business continuity; evaluation of the root cause of the interruption to determine action plans; establishment of forms of communication between the institution and employees, clients and regulators. The Program can be divided into two key elements:

- Crisis Management: It includes the centralized communication process and the response procedures through which the institution manages business interruption events and also any other types of threats to the image and reputation of its identity before its employees, clients, strategic partners and regulators. The structure has a Command Center that constantly monitors the institution's daily operations, as well as the media channels in which Itaú Unibanco is mentioned, which allows for a prompt action by means of pre-established crisis management procedures and coordinated responses in situations that could materialize into potential crises for the institution's business if they were not properly handled. The success of Crisis Management takes place through the Focal Agent Network, who are the representatives appointed by the business areas and that work in the monitoring of potential problems, resolution of crisis, resumption of business, improvement of processes and search for prevention actions;
- Business Continuity Plans (PCN): documentation of procedures and information developed, consolidated and maintained in a way that is available for use in possible incidents, allowing the resumption of Itaú Unibanco's critical activities in acceptable terms and conditions. The proper use of these plans preserves the integrity of people, assets, systems, information and, consequently, the reputation of the institution. For the quick and safe resumption of the operation's critical functions, Itaú Unibanco has established, in its PCN, corporate wide and customized actions for its line of business by means of:
  - Disaster Recovery Plan: focused on the recovery of its main infrastructure (primary Data Center), including networks, applications, telecommunication links and operation data that ensure the continuity of the processing of critical systems that support the institution's activities within minimum pre-established periods;
  - Workplace Contingency Plan: employees responsible for carrying out critical business functions have alternative facilities to perform their activities in the event the buildings in which they usually work become unavailable. Itaú Unibanco has approximately 2,300 contingency dedicated seats that are fully equipped to meet the needs of the business areas in emergency situations.

These dedicated seats, including telecommunications and systems infrastructure, are constantly tested to ensure their prompt use.

  - Emergency Plan: procedures aimed at minimizing the effects of emergency situations that may impact the institution's facilities, with a preemptive focus, since, when the risks are identified, it not only establishes the means to deal with the emergency, but also the definition of the composition of the intervention teams and their respective assignments;
  - Critical Function Contingency Plan: evaluation of alternatives (Plan B) to carry out the critical processes identified in the business areas.

For the Program to be adherent to the business requirements, Itaú Unibanco has a team of professionals who are dedicated to the creation of its guidelines, implementation, maintenance, management, as well as the constant training and education of its employees.

Itaú Unibanco has the commitment to ensure that its PCN is comprehensive and updated, particularly when new information, techniques and technologies become available. Therefore, the Program may be changed as the institution deems necessary to protect all the stakeholders and resources involved in this context.

2 Referential Equity

The PR, used to monitor the compliance with the operational limits imposed by BACEN, is the sum of Tier I and Tier II, pursuant to CMN Resolution No. 3,444, of February 28th, 2007, where:

- Tier I: comprises capital, reserves and retained earnings;
- Tier II: includes asset revaluation reserves and subordinated debt and is limited to the amount of Capital Tier I.

According to the rules of BACEN, the banks can estimate the compliance with the minimum requirement:

- Based on the consolidation of all financial subsidiaries regulated by BACEN, including branches and foreign investments (financial system consolidated); and
- Based on full consolidation, taking into consideration all the companies owned by Itaú Unibanco, regardless of whether they are regulated by BACEN (economic-financial consolidated) or not.

The table below presents the breakdown of capital Tier I, Tier II and exclusions, as provided for in the Resolution mentioned above.

R$ million

Composition of Tier I and Tier II	Financial system consolidated			Economic-financial consolidated		
	3/31/2012	12/31/2011	03/31/2011	3/31/2012	12/31/2011	03/31/2011
Stockholders' equity Itaú Unibanco Holding S.A. (Consolidated)	**72,484**	**71,347**	**63,731**	**72,484**	**71,347**	**63,731**
Minority interest in subsidiaries	1,156	1,181	1,055	1,905	1,742	2,913
Unrealized results	-	-	-	-	-	-
Consolidated stockholders' equity (BACEN)	**73,640**	**72,528**	**64,786**	**74,389**	**73,089**	**66,644**
Revaluation reserves excluded from Tier I	-	-	-	-	-	-
Deferred tax assets excluded from Tier I	(593)	(581)	(528)	(593)	(590)	(552)
Deferred permanent assets excluded from Tier I	(266)	(294)	(353)	(267)	(294)	(356)
Adjustment to market value – securities and derivative financial Instruments excluded from Tier I	48	139	55	47	138	55
Additional provision for loan, lease and other	-	-	-	-	-	-
Preferred shares with clause of redemption excluded from Tier I	(716)	(741)	(640)	(716)	(741)	(640)
Tier I	**72,113**	**71,051**	**63,320**	**72,860**	**71,602**	**65,151**
Subordinated debt	20,885	21,259	16,848	20,885	21,259	16,848
Preferred shares with clause of redemption	287	444	512	287	444	512
Revaluation reserves	-	-	-	-	-	-
Adjustments to market value - securities and derivative financial instruments	(48)	(139)	(55)	(48)	(138)	(55)
Tier II	**21,124**	**21,564**	**17,305**	**21,124**	**21,565**	**17,305**
Tier I + Tier II	**93,237**	**92,615**	**80,625**	**93,984**	**93,166**	**82,456**
Exclusions						
Funding instruments issued by financial institutions	(33)	(55)	(148)	(33)	(55)	(148)
Reference Equity (PR)	**93,204**	**92,561**	**80,477**	**93,951**	**93,111**	**82,308**

The funds obtained through the issue of subordinated debt are described below:

R$ million

Subordinated Debt	3/31/2012						12/31/2011		3/31/2011	
Name of the instrument	**0-30**	**31-180**	**181-365**	**More than 365**	**Total**	**%**	**Total**	**%**	**Total**	**%**
Bank Deposit Certificate (CDB)	6,134	3,017	4,187	10,497	23,834	52.2	24,447	68.0	23,224	64.6
Financial Bills	-	-	-	12,477	12,477	27.3	5,168	14.4	10,254	28.5
Euronotes	52	62	-	8,284	8,398	18.4	4,602	12.8	5,222	14.5
Bônus	3	-	3	301	308	0.7	300	0.8	299	0.8
Eurobonds	-	-	-	-	-	-	827	2.3	-	-
(-) Transaction costs incurred	-	-	-	(33)	(33)	(0.1)	(49)	(0.1)	(24)	(0.1)
TOTAL OTHER LIABILITIES	**6,189**	**3,079**	**4,190**	**31,526**	**44,984**		**35,294**		**38,974**	
Redeemable preferred shares	-	-	0	716	716	1.6	640	1.8	741	2.1
GRAND TOTAL [1]	**6,189**	**3,079**	**4,190**	**32,242**	**45,701**		**35,934**		**39,715**	
% by maturity	13.5	6.7	9.2	70.6						
TOTAL - 03/31/2011	**62**	**891**	**0**	**34,981**	**35,934**					
% by maturity	0.2	2.5	0.0	97.3						
TOTAL - 12/31/2011	**60**	**8,157**	**2,502**	**28,997**	**39,715**					
% by maturity	0.1	20.5	6.3	73.0						

[1] *The amount of R$ 39,997 (R$ 38,257 on December 31, 2011 and R$ 32,268 on March 31, 2011) composes the Referential Equity in accordance with the proportion determined by the CMN Resolution No. 3,444 of February 28, 2007 and amendments introduced by CMN Resolution No. 3,532 of January 31, 2008.*

The details concerning the maturities, conditions and the principal of subordinated debts are described below:

R$ million

Details of Subordinated Debt							Variation	
				3/31/2012	12/31/2011	03/31/2011	Mar/12 - Dec/11	Mar/12 - Mar/11
Name of instrument	**Issue**	**Maturity**	**Compensation p.a.**		**Principal**			
Subordinated CDB [1]								
	2002	2012	102% of CDI	200	200	220	-	(20)
	2007	2012	103.5% to 104% of CDI	4,970	4,970	6,499	-	(1,529)
			CDI [1] + 0.35% to 0.45%	732	732	1,372	-	(640)
			IGPM [2] + 7.35%	278	278	291	-	(13)
	2003	2013	102% of CDI	40	40	40	-	-
	2008	2013	CDI + 0.50% to 0.6%	1,558	1,558	2,953	-	(1,395)
			106% to 107% of CDI	48	48	48	-	-
	2007	2014	CDI + 0.35% to 0.6%	1,865	1,865	1,865	-	-
			IGPM + 7.35%	33	33	33	-	-
	2008	2014	112% of CDI	1,000	1,000	1,000	-	-
	2008	2015	119.8% of CDI	400	400	400	-	-
	2010	2015	113% of CDI	50	50	50	-	-
	2006	2016	CDI + 0.47% [3]	466	466	500	-	(34)
	2010	2016	110% to 114% of CDI	2,719	2,719	2,719	-	-
			IPCA[2] + 7.33%	123	123	123	-	-
	2010	2017	IPCA + 7.45%	367	367	367	-	-
			TOTAL	**14,849**	**14,849**	**18,480**	**-**	**(3,631)**
Subordinated financial bills								
	2010	2016	CDI + 1.35% to 1.36%	365	365	365	-	-
			112% to 112.5% of CDI	1,874	1,874	1,874	-	-
			IPCA + 7%	30	30	30	-	-
	2010	2017	IPCA + 6.95% to 7.2%	206	206	206	-	-
	2011	2017	108% to 112% of CDI	3,224	3,224	1,145	-	2,079
			CDI + 1.29% to 1.52%	3,650	3,650	1,394	-	2,256
			IPCto + 6.15% to 7.8%	352	352	63	-	289
			IGPM + 6.55% to 7.6%	138	138	-	-	138
	2011	2018	IGPM + 7%	42	42	42	-	-
			IPCA + 7.53% to 7.7%	30	30	-	-	30
	2012	2018	109% to 112.5 % of CDI	824	-	-	824	824
			CDI + 1.22% to 1.32%	939	-	-	939	939
			IPCA + 5.76% to 6.58%	426	-	-	426	426
	2011	2019	109% to 109.7% of CDI	2	2	-	-	2
	2012	2019	110 % of CDI	1	-	-	1	1
			12.20%	12	-	-	12	12
			IPCto + 5.83% to 6.30%	41	-	-	41	41
	2012	2020	111% of CDI	1	-	-	1	1
			IPCto + 6% to 6.17%	20	-	-	20	20
	2011	2021	109.25% to 110.5 % of CDI	6	6	-	-	6
			TOTAL	**12,183**	**9,919**	**5,119**	**2,264**	**7,064**
Eurobonds -Perpetual Non-cumulative Junior Subordinated Securities								
	2005	Indeterminado	8.7%		-	1,195	-	(1,195)
Subordinated euronotes								
	2001	2011	4.25% to 10%	-	-	1,082	-	(1,082)
	2010	2020	6.2%	1,731	1,731	1,731	-	-
	2010	2021	5.75%	1,694	1,694	1,694	-	-
	2011	2021	5.75% to 6.2%	1,199	1,199	418	-	781
	2012	2021	6.2%	956	-	-	956	956
	2012	2022	5.65%	2,278	-	-	2,278	2,278
			TOTAL	**7,858**	**4,624**	**4,925**	**3,234**	**2,933**
Subordinated Bonos								
	2005	2015	1.42%	194	194	194	-	-
	2008	2033	3.5% a 4.5%	141	141	141	-	-
			TOTAL	**335**	**335**	**335**	**-**	**-**
Preferred shares								
	2002	2015	3.04%	1,389	1,389	1,389	-	-
			GRAND TOTAL [4]	**36,613**	**31,115**	**30,248**	**5,498**	**6,365**

[1] CDB is the Bank Certificates of Deposit - like Time Deposits in USA - and CDI is the Interbank Deposit Rate.

[2] IPCA and IGP-M are Brazilian Inflation Indexes.

[3] The subordinated notes are redeemable from November 2011.

[4] The amount of R$ 39,997 (R$ 38,257 on 12/31/2011 and R$ 32,268 on 03/31/2011) integrates the Referential Equity, within the proportionality defined by CMN Resolution No. 3444 of 02/28/2007 and the changes introduced by CMN Resolution No. 3532 of 01/31/2008.

The movement of funds is free between the consolidated institutions provided that the minimum capital requirements determined by local regulatory bodies of foreign subsidiaries, as well as the minimum capital requirements of insurance companies established by the SUSEP are observed.

The CNSP following the worldwide trend towards the strengthening of the insurance market, disclosed on December 6th, 2010 the Resolutions Nos. 227 - which revoked amended by Resolutions No. 178 of December 28th, 2007, and No. 200 of December 16th, 2008 - and Circular No. 411 of December 22nd, 2010.

The regulations provide for the rules on regulatory capital required for authorization and operation of insurance companies and rules for the allocation of capital from subscription risk for several insurance lines. In January 2011, CNSP Resolution No. 228 came into effect, providing for the criteria for establishment of additional capital based on the credit risk of the supervised companies.

3 Required Referential Equity

The PRE is the equity required from financial institutions to cover risk exposures inherent to the activities developed. In accordance with CMN Resolution No. 3,490, of August 29th, 2007, the calculation of the institution's regulatory capital to cover risks takes into consideration the sum of the following portions for composing the PRE:

$$PRE = PEPR + PCAM + PJUR + PCOM + PACS + POPR$$

- PEPR = portion related to credit risk and other asset exposures not included in the other portions;
- PCAM = portion related to the risk of exposures in gold, foreign currency and transactions subject to foreign exchange rate variations;
- PJUR = portion related to the risk of transactions subject to variations in interest rates and classified in the trading book pursuant to CMN Resolution No. 3,464;
- PCOM = portion related to the risk of transactions subject to variations in commodity prices;
- PACS = portion related to the risk of transactions subject to variations in stock prices and classified in the trading book pursuant to CMN Resolution No. 3,464;
- POPR = portion related to the operational risk calculated based on the volume of wholesale and commercial loans, gross income from financial intermediation and service fees from other standardized beta-weighted business lines.

The portions mentioned above were calculated using the procedures disclosed by BACEN in the following Circulars:

- No. 3,360: risk-factor weighted exposures, comprising investments of funds in assets and rights and costs and expenses, recorded in assets, loan commitments, sureties, guarantees and joint liability or any other personal guarantee, potential future gain, arising from transactions with derivative instruments, and advances granted (PEPR);
- No. 3,361: exposures subject to variation in fixed interest rates denominated in real (PJUR1);
- No. 3,362: exposures subject to variation in the foreign exchange linked interest rate (PJUR2);
- No. 3,363: exposures subject to variation in the price index linked interest rates (PJUR3);
- No. 3,364: exposures subject to variation in the interest rate index linked interest rates (PJUR4);
- No. 3,366: exposures subject to variation in stock prices (PACS);
- No. 3,368: exposures subject to variation in commodity prices (PCOM);
- No. 3,383: calculation of the portion of PRE related to operational risk (POPR);
- No. 3,389: exposures in gold, foreign currency and assets and liabilities subject to foreign exchange rate variation (PCAM);
- No. 3,425 changed the weighting factor for tax credits from temporary differences to 100% from 300%, considerably reducing the capital of these exposures;
- Circular No. 3,563: amended BACEN Circular No. 3,360, of September 12th, 2007 increasing capital requirements (risk weighting factor at 150% and 300%) for loan and lease transactions with individuals that mature after 24 months and start on or after December 6, 2010 or are renegotiated on or after November 11, 2011, depending on the funding period. It also resolved that for determining the exposure amount related to the investment in investment fund quotas linked to open private pension plans such as Vida Gerador de Benefício Livre (VGBL) or Plano Gerador de Benefício Livre (PGBL), the amounts shall be deducted from the mathematical provisions for benefits to be granted of the respective plans. It is effective from the base date November 2011.

The procedures determined by the following Circular Letters were also observed:

- No. 3,309: clarifies the methodology used to determine standard volatilities and multipliers to be disclosed by BACEN for the calculation of PJUR1;
- No. 3,310: clarifies the methodology used to calculate the portions related to market risk;
- No. 3,315: shows examples of calculation of the operational risk portion according to BACEN Circular No. 3,383, of April 30th, 2008;
- No. 3,316: shows the composition of the exposure indicator for the calculation of the operational risk portion according to BACEN Circular No. 3,383;

- BACEN Circular No. 3,476, of December 24th, 2009, determines that, as from June 30th, 2010, an additional amount should be included in the portion related to the operational risk (POPR) for the Economic-Financial Consolidated by using an indicator based on equity in earnings of subsidiaries and affiliates.

In addition to the above mentioned circulars, the following rules have material impact on calculations and other processes for the calculation of capital adequacy:

- CMN Resolution No. 3,674, of December 30th, 2008, implemented the possibility of adding the provision in excess of the minimum percentage required by CMN Resolution No. 2,682, of December 21st, 1999, to the PR, positively affecting the Basel ratio. The effects of this resolution ceased on April 1st, 2010 due to the issue of CMN Resolution No. 3,825, of December 16th, 2009;
- BACEN Circular No. 3,478, of December 28th, 2009, set out the minimum requirements and procedures to be observed when using internal models to calculate capital for market risk.

The table below presents the consolidated evolution of capital allocation of Itaú Unibanco and each of the portions mentioned above will be presented in detail in the topics below.

R$ million

Composition of Required Reference Equity (PRE)						
	Financial system consolidated					
Risk exposure	03/31/2012		12/31/2011		03/31/2011	
Regulatory portion required for credit risk coverage (PEPR)	59,587	90.8%	59,188	92.9%	50,815	92.5%
Regulatory portion required for operational risk coverage (POPR)	3,963	6.0%	3,460	5.4%	3,073	5.6%
Regulatory portion required for market risk coverage	2,088	3.2%	1,079	1.7%	1,056	1.9%
Required reference equity (PRE)	65,638	100%	63,727	100%	54,944	100%

R$ million

Composition of Required Reference Equity (PRE)						
	Economic-financial consolidated					
Risk exposure	03/31/2012		12/31/2011		03/31/2011	
Regulatory portion required for credit risk coverage (PEPR)	57,886	90.0%	57,628	92.1%	51,919	92.1%
Regulatory portion required for operational risk coverage (POPR)	4,394	6.8%	3,852	6.2%	3,435	6.1%
Regulatory portion required for market risk coverage	2,051	3.2%	1,076	1.7%	1,034	1.8%
Required reference equity (PRE)	64,331	100%	62,556	100%	56,388	100%

3.1 Credit Risk

Evolution of Credit Portfolio

The information presented in the table below allows for the analysis of the credit portfolio and its behavior from many points of view: amount of overdue operations, segregated by overdue term, exposure of largest clients related to the total portfolio amount, exposure segregated by economic sector and geographical region.

R$ million

Overdue Amounts						
	Financial system consolidated			Economic-financial consolidated		
Overdue	**3/31/2012**	**12/31/2011**	**03/31/2011**	**3/31/2012**	**12/31/2011**	**03/31/2011**
Between 1 and 14 days	11,296	12,014	8,709	11,247	11,972	8,658
Up to 60 days	12,835	11,668	11,169	12,717	11,566	11,023
Between 61 and 90 days	3,977	3,672	3,237	3,913	3,602	3,168
Between 91 and 180 days	8,095	7,156	5,864	7,941	6,991	5,702
Over 180 days	9,945	10,190	7,368	9,617	9,856	7,171

R$ million

Percentage of Exposures of Major Clients in Relation to Total Operations with Credit Granting Characteristics						
	Exposure	% of portfolio	Exposure	% of portfolio	Exposure	% of portfolio
Loan, lease and other credit operations [1]	**03/31/2012**		**12/31/2011**		**03/31/2011**	
Largest debtor	3,296	0.8%	3,100	0.8%	2,323	0.7%
10 largest debtors	22,556	5.6%	22,000	5.5%	18,851	5.5%
20 largest debtors	37,411	9.3%	36,716	9.3%	30,271	8.8%
50 largest debtors	59,058	14.7%	59,377	15.0%	50,281	14.6%
100 largest debtors	77,651	19.4%	77,454	19.5%	67,118	19.5%

[1] The amounts include endorsements and sureties. Do not include loan commitments.

R$ million

Operations with Credit Granting Characteristics [1]: Exposure						
	Financial system consolidated			Economic-financial consolidated		
	3/31/2012	**12/31/2011**	**03/31/2011**	**3/31/2012**	**12/31/2011**	**03/31/2011**
Per weighting factor (FPR)						
FPR at 20%	1,417	2,043	1,179	1,417	2,043	1,179
FPR at 35%	4,547	4,266	2,249	4,547	4,266	2,249
FPR at 50%	15,684	14,648	12,348	15,683	14,647	12,349
FPR at 75%	169,503	169,574	162,742	164,668	164,690	158,429
FPR at 100%	229,015	225,440	189,510	229,124	225,514	189,610
FPR at 150% [2]	8,662	9,506		8,647	9,501	
FPR de 300% [4]	210	120		210	120	
Total	**429,038**	**425,597**	**368,028**	**424,296**	**420,781**	**363,815**
Per country						
Brazil	373,861	371,159	330,431	369,093	366,321	326,199
Abroad [3]	55,177	54,437	37,597	55,204	54,460	37,615
Total	**429,038**	**425,597**	**368,028**	**424,296**	**420,781**	**363,815**
Per region						
Southeastern	275,590	271,869	245,157	272,442	268,687	241,747
Southern	39,769	39,968	34,173	39,077	39,267	34,118
Northen	7,565	7,660	6,913	7,527	7,619	6,870
Nordeastern	31,476	32,216	27,526	30,882	31,607	27,061
Central-western	19,461	19,446	16,663	19,165	19,142	16,403
Total	**373,861**	**371,159**	**330,431**	**369,093**	**366,321**	**326,199**

[1] Includes endorsements, sureties and committed loans.

[2] Inclusion of 150% weighting factor from the base date July/11 as Circular No. 3,515.

[3] Inclusion of 300% weighting factor from the base date November/11 as Circular No. 3,563.

[4] Abroad: Bahamas, Grand Cayman, United States, Argentina, Portugal, Luxembourg, Mexico, Switzerland, Chile, Uruguay and Paraguay.

R$ million

Operations with Credit Granting Characteristics [1]: Average Exposure for the Quarter						
	Financial system consolidated			Economic-financial consolidated		
	1st quarter of 2012	4th quarter of 2011	1st quarter of 2011	1st quarter of 2012	4th quarter of 2011	1st quarter of 2011
Por FPR						
FPR de 20%	1,730	1,794	1,390	1,730	1,794	1,364
FPR de 35%	4,406	4,112	2,122	4,406	4,112	2,122
FPR de 50%	15,166	14,446	11,780	15,165	14,446	11,780
FPR de 75%	169,539	159,506	160,573	164,679	154,704	157,348
FPR de 100%	227,227	219,982	188,022	227,319	220,067	188,225
FPR de 150% [2]	9,084	17,455		9,074	17,457	
FPR de 300% [3]	165	60		165	60	
Total	**427,318**	**417,354**	**363,888**	**422,538**	**412,640**	**360,839**
Por País						
Brasil	372,511	364,284	327,605	367,706	359,548	324,537
Exterior [4]	54,807	53,071	36,283	54,832	53,092	36,302
Total	**427,318**	**417,354**	**363,888**	**422,538**	**412,640**	**360,839**
Por Região						
Sudeste	273,730	266,080	243,903	270,564	262,965	241,583
Sul	39,869	39,581	33,730	39,172	38,901	33,539
Norte	7,613	7,616	7,031	7,573	7,576	6,988
Nordeste	31,846	31,868	26,851	31,245	31,267	26,517
Centro-Oeste	19,453	19,139	16,091	19,153	18,839	15,910
Total	**372,511**	**364,284**	**327,605**	**367,706**	**359,548**	**324,537**

[1] Includes endorsements, sureties and committed loans.

[2] Inclusion of 150% weighting factor from the base date July/11 as Circular No. 3,515.

[3] Inclusion of 300% weighting factor from the base date November/11 as Circular No. 3,563.

[4] Abroad: Bahamas, Grand Cayman, United States, Argentina, Portugal, Luxembourg, Mexico, Switzerland, Chile, Uruguay and Paraguay.

The balances were reclassified on March 31, 2012 in order to align the criteria for industry exposure for the purposes of disclosure in internal reports and of publication. We present this new classification below:

R$ milion

Operations with Credit Granting Characteristics (1) - Business Sectors: Exposure				
	Financial system consolidated		Economic - financial consolidated	
Business sectors	3/31/2012		3/31/2012	
	Total	%	Total	%
PUBLIC SECTOR	**18**	**0.00%**	**33**	**0.01%**
Generation, transmission and distribution of electric en	-	**0.00%**	-	**0.00%**
Chemical and petrochemical	-	**0.00%**	-	**0.00%**
Other	18	**0.00%**	33	**0.01%**
PRIVATE SECTOR	**429,020**	**100.00%**	**424,263**	**99.99%**
COMPANIES	**251,023**	**58.51%**	**251,025**	**59.16%**
Sugar and alcohol	7,982	**1.86%**	7,982	**1.88%**
Agribusiness and fertilizers	12,447	**2.90%**	12,447	**2.93%**
Food and beverage	13,181	**3.07%**	13,181	**3.11%**
Banks and other financial institutions	8,974	**2.09%**	8,974	**2.12%**
Capital assets	8,576	**2.00%**	8,576	**2.02%**
Pulp and paper	2,893	**0.67%**	2,893	**0.68%**
Electronic and IT	6,203	**1.45%**	6,203	**1.46%**
Packaging	2,120	**0.49%**	2,120	**0.50%**
Energy and sewage	10,781	**2.51%**	10,781	**2.54%**
Education	1,313	**0.31%**	1,313	**0.31%**
Pharmaceuticals and cosmetics	6,593	**1.54%**	6,593	**1.55%**
Real estate agents	19,027	**4.43%**	19,027	**4.48%**
Entertainment and tourism	3,467	**0.81%**	3,467	**0.82%**
Wood and furniture	2,926	**0.68%**	2,926	**0.69%**
Construction material	5,399	**1.26%**	5,399	**1.27%**
Steel and metallurgy	10,137	**2.36%**	10,137	**2.39%**
Media	1,556	**0.36%**	1,556	**0.37%**
Mining	3,895	**0.91%**	3,895	**0.92%**
Infrastructure work	6,796	**1.58%**	6,796	**1.60%**
Oil and gas	4,007	**0.93%**	4,008	**0.94%**
Petrochemical and chemical	10,081	**2.35%**	10,081	**2.38%**
Health care	2,243	**0.52%**	2,243	**0.53%**
Insurance and reinsurance and pension plans	44	**0.01%**	44	**0.01%**
Telecommunications	5,125	**1.19%**	5,125	**1.21%**
Clothing and footwear	5,127	**1.19%**	5,127	**1.21%**
Trading	1,997	**0.47%**	1,997	**0.47%**
Transportation	17,325	**4.04%**	17,325	**4.08%**
Domestic appliances	3,157	**0.74%**	3,157	**0.74%**
Vehicles and autoparts	18,853	**4.39%**	18,853	**4.44%**
Third sector	158	**0.04%**	158	**0.04%**
Publishing and printing	1,685	**0.39%**	1,685	**0.40%**
Commerce - Sundry	15,280	**3.56%**	15,280	**3.60%**
Industry - Sundry	3,617	**0.84%**	3,617	**0.85%**
Sundry services	16,288	**3.80%**	16,299	**3.84%**
Sundry	11,772	**2.74%**	11,762	**2.77%**
INDIVIDUALS	**177,997**	**41.49%**	**173,238**	**40.83%**
Credit cards	36,001	**8.39%**	32,994	**7.78%**
Real estate financing	17,908	**4.17%**	17,908	**4.22%**
Consumer loans/overdraft	69,751	**16.26%**	67,998	**16.03%**
Vehicles	54,337	**12.66%**	54,337	**12.81%**
GRAND TOTAL	**429,038**	**100.00%**	**424,296**	**100.00%**

(1) *Includes endorsements, sureties and committed loans.*

Operations of Securitization, Sale or Transfer of Financial Assets

Itaú Unibanco's portfolio includes securities arising from securitization processes. The portfolio is made up of Securitized Real Estate Loans (CRI) e quotas of Credit Rights Investment Funds (FIDC).

The CRIs are backed by real estate loans and are not subordinated. The quotas of FIDCs are senior and backed by receivables, such as trade notes, promissory notes, etc.

Itaú Unibanco classifies securities arising from securitization processes based on the governance of products determined, and the credit is approved at the proper authority levels. The balances of these operations are presented below.

R$ million

Operations with Securities Arising from Securitization Process						
	Financial system consolidated			Economic-financial consolidated		
Security	**3/31/2012**	**12/31/2011**	**3/31/2011**	**3/31/2012**	**12/31/2011**	**3/31/2011**
CRIs	8,414	8,032	7,783	8,423	8,041	7,798
FIDCs	702	755	646	892	941	839

We present below the credit assignments without joint obligation in accordance with the provision in CMN Resolution No. 2,836, of May 30th, 2001, and the amount of operations of sales or transfers of financial assets where the entity significantly retained the risks, which is composed exclusively of loan operations and receivables assigned with joint obligation, in accordance with CMN Resolution No. 3,809, of October 28th, 2009.

R$ million

Sale or Transfer of Financial Assets						
	Financial system consolidated			Economic-financial consolidated		
	3/31/2012	**12/31/2011**	**03/31/2011**	**3/31/2012**	**12/31/2011**	**03/31/2011**
Flow of exposures assigned in the quarter with significant transfer of risks and benefits	304	406	743	304	406	743
Balance of exposures assigned with significant withholding of risks and benefits	545	554	33	545	554	33

Mitigating Instruments

As a way to control credit risk, Itaú Unibanco has a corporate policy that sets out the general guidelines and responsibilities related to the use of guarantees; in addition, each business unit, responsible for credit risk management, formalizes the use of mitigating instruments in its credit policies.

Itaú Unibanco uses guarantees aimed at increasing resiliencies in operations with credit risk. The using guarantees can be personal guarantees, secured guarantees, legal structures with mitigating power and netting arrangements.

Guarantees are an important credit risk management tool and, for this reason, they are only accepted when they meet the criteria established by the group.

For the guarantees to be accepted as mitigating instruments, they must be duly formalized and controlled, which includes the periodic determination of its market value and the monitoring of their sufficiency level related to the related operation.

Itaú Unibanco ensures that any guarantee that impacts mitigation, allocation and provision of capital, is legally valid (effective), enforceable and periodically reassessed.

Itaú Unibanco also uses credit derivatives, such as single name CDS, to mitigate the risk of its portfolios of loans and securities; these instruments are priced based on models that use the fair value of market inputs, such as credit spreads, recovery rates, correlations and interest rates.

Commitments to grant credit (e.g. overdraft limits, pre-approved limits, commitments to grant credit, standby letters of credit, and other guarantees) represent undrawn amounts of the value available in loans. The limits are continuously monitored and changed according to client behavior. Thus, the potential loss values represent a fraction of the amount available.

Itaú Unibanco adopts mitigating instruments set forth in Articles 20 to 22 of BACEN Circular No. 3,360, of September 12nd, 2007, in the calculation of the regulatory capital. It is worth noting that purchase and sale commitments and residential real estate or first mortgage-backed loan operations are considered when determining risk weights as provided for in the above mentioned Circular.

Allowance for Loan Losses

In order to hedge the institution against losses arising from loan operations, Itaú Unibanco takes into consideration all the aspects that determine the client's credit risk to determine the provision level that is appropriate to the risk incurred in each operation. For each operation, the assessment and the client or economic group rating, the operation rating, and the possible existence of past due amounts are taken into account.

Itaú Unibanco recognizes an allowance additional to that minimum required by BACEN, aiming at ensuring an allowance level compatible with the expected loss, according to internal models. This allowance is usually quantified in view of the past performance of loan portfolios, based on exposure, probabilities of default and expected recovery of transactions.

As from December 2010, the allowance for loan losses reflects the expected loss model adopted in the management of the institution's credit risk based on the comprehensive concept of Basel II, which also considers the potential losses on revolving credit. The table below presents the changes over the past quarters.

R$ million

Changes in Allowance for Loan Losses						
	Financial system consolidated			Economic-financial consolidated [1]		
	1st quarter of 2012	4th quarter of 2011	1st quarter of 2011	1st quarter of 2012	4th quarter of 2011	1st quarter of 2011
Opening balance	**(26,337)**	**(25,322)**	**(22,510)**	**(25,772)**	**(24,719)**	**(22,018)**
Net increase for the period	(6,156)	(5,562)	(4,513)	(6,031)	(5,453)	(4,380)
Required by Resolution No. 2,682/99	(6,156)	(5,596)	(3,938)	(6,031)	(5,453)	(3,853)
Additional	-	34	(575)	-	-	(527)
Write-Off	6,025	4,547	4,277	5,852	4,400	4,159
Closing balance	**(26,468)**	**(26,337)**	**(22,746)**	**(25,951)**	**(25,772)**	**(22,239)**
Regulatory allowance	(21,396)	(21,265)	(17,640)	(20,893)	(20,714)	(17,181)
Additional allowance	(5,072)	(5,072)	(5,106)	(5,058)	(5,058)	(5,058)

[1] In 2011, there was a change in the criterion for consolidating certain companies particularly for Financeira Itaú CBD S.A. Crédito, Financiamento e Investimento, with the change from full to partial consolidation, and Porto Seguro S.A., which is now stated under the equity method, including for comparative purposes.

Counterparty Credit Risk

For Itaú Unibanco, the counterparty's credit risk is the possibility of failure by certain counterparty to fulfill its respective obligations associated with the contracting of derivative instruments or financing of assets. The bilateral nature of the risk is due to both uncertainties regarding the market value of the contracted operations and the deterioration of the credit quality of the counterparty.

The table below presents the contracts of Itaú Unibanco that are subject to counterparty credit risk.

Itaú Unibanco does not trade credit derivatives for intermediation purposes.

R$ million

Contracts Subject to Counterparty Credit Risk	Financial system consolidated			Economic-financial consolidated		
	3/31/2012	12/31/2011	03/31/2011	3/31/2012	12/31/2011	03/31/2011
Notional Amount						
Liquidated in Liquidation Systems (stock exchange) (1)	1,075,052	1,324,981	2,904,559	1,079,488	1,324,981	2,910,709
Not Liquidated in Liquidation Systems (over-the-counter)	442,236	355,086	292,747	436,662	348,793	292,980
Total Gross Positive Amount	175,390	118,360	118,764	174,930	117,906	118,249
(-) Amounts related to Netting Arrangements	-	-	-	-	-	-
(-) Guarantees	(22,182)	(27,481)	(33,790)	(21,827)	(27,475)	(34,093)
(=) Net Global Exposure to the Counterparty Credit Risk	153,208	90,879	84,974	153,103	90,431	84,156

(1) *BM&F Bovespa is currently the only stock exchange operating with Itaú Unibanco in the capacity of a central counterparty.*

R$ million

Contracts Subject to Counterparty Credit Risk	Financial system consolidated			Economic-financial consolidated		
	3/31/2012	12/31/2011	03/31/2011	3/31/2012	12/31/2011	03/31/2011
Hedges (1)	3,120	3,660	2,552	3,120	3,660	2,552
Exposures to credit risk covered by notional amount of hedges (1)	3,120	3,660	2,552	3,120	3,660	2,552
Percentage	100%	100%	100%	100%	100%	100%

(1) *Hedges carried out through credit derivatives.*

R$ million

Notional Amount of Credit Derivatives Held in Portfolio	Financial system consolidated			Economic-financial consolidated		
	3/31/2012	12/31/2011	03/31/2011	3/31/2012	12/31/2011	03/31/2011
Risk Received						
Credit Swap	4,057	3,527	2,956	4,057	3,527	2,956
Total Return Swap	-	9	8	-	9	8
Risk Transferred						
Credit Swap	1,949	2,472	2,128	1,949	2,472	2,128
Total Return Swap	1,171	1,188	424	1,171	1,188	424

Itaú Unibanco does not trade credit derivatives for intermediation purposes.

Risk-Factor Weighted Exposures (PEPR)

The portion required to cover the credit risk is the PEPR. Its amounts over the past quarters, presented in detail by weighting factor (FPR) and type, are presented below.

R$ million

Composition of PEPR	Financial system consolidated			Economic-financial consolidated		
	3/31/2012	12/31/2011	03/31/2011	3/31/2012	12/31/2011	03/31/2011
Risk exposures						
Exposure weighted by credit risk (EPR)	**541,694**	**538,082**	**461,951**	**526,233**	**523,900**	**471,993**
Regulatory portion required for credit risk coverage (PEPR)	**59,587**	**59,189**	**50,815**	**57,886**	**57,629**	**51,919**
a) Per weighting factor (FPR):						
FPR at 20%	223	209	207	355	349	346
FPR at 35%	175	164	87	175	164	87
FPR at 50%	3,600	3,468	2,758	4,598	4,671	4,203
FPR at 75%	13,984	13,990	13,426	13,585	13,587	13,070
FPR at 100%	38,505	37,981	33,106	35,996	35,392	32,912
FPR at 150% (1)	1,429	1,568		1,427	1,568	
FPR at 300% (2)	1,361	1,381	980	1,437	1,467	1,045
Derivatives - potential future gain	309	428	251	313	431	256
b) Per Type:						
Securities	2,994	2,540	2,868	3,051	2,602	3,017
Loan operations - Retail	11,165	11,167	10,990	10,891	10,886	10,739
Loan operations - Non-retail	20,679	20,141	15,850	20,690	20,150	15,866
Joint liabilities - Retail	46	49	7	46	49	7
Joint liabilities - Non-retail	5,782	5,550	4,411	5,780	5,546	4,406
Loan commitments - Retail	2,774	2,774	2,430	2,648	2,652	2,325
Loan commitments - non-retail	1,723	1,730	1,376	1,723	1,731	1,376
Other exposures	14,424	15,238	12,883	13,057	14,013	14,183

(1) *Inclusion of 150% weighting factor from the base date July/11 as Circular No. 3,515.*

(2) *Inclusion of 300% weighting factor from the base date November/11 as Circular No. 3,563.*

3.2 Market Risk

The whole business strategy and related impacts on market risk control are based on an analysis of the macroeconomic contexts of domestic and international markets, predominantly the main events that recently occurred, as a way to assess the changes seen in the portfolio. Therefore, the macroeconomic analyses produced by Itaú Unibanco are presented below, followed by analyses of the portfolio evolution and risk measures.

Domestic Market

In the domestic scenario, the slowing trend in economic activity was consolidated. The cool-down is a consequence of fiscal and monetary tightening executed since late 2010, but also reflects the recent deceleration in global growth. We expect gross domestic product to accelerate throughout the second half of the year.

GDP probably expanded 0.5% in Q1, a slight recovery compared to the stability of the previous quarter. Consumer credit grew modestly thorough Q1, still due to macro prudential measures adopted by the government in 2010, and partly due to the slower pace of economic activity. Consumer and business expectations remain at lower levels than in the recent past, contributing to moderate economic growth in early 2012.

Inflation was up 1.2% in Q1, compared to 1.5% in the previous quarter. Year-over-year, the National Index of Wide Consumer Prices (IPCA) consumer price index ended March at 5.2%, compared to 6.5% in December 2011. Notwithstanding a still-high inflation level in the final quarter of 2011, the trend for inflation is to slow down until the middle of 2012. The cool-down in economic activity, lower pressure from commodity prices and smaller adjustments in administrated items contribute to an outlook of accommodation in inflation ahead.

With heightened uncertainties in the external scenario and the possible impact on domestic activity, the Brazilian central bank decided to start an easing process in the Selic benchmark interest rate in August 2011. The basic rate ended the quarter at 9.75% p.a., down from 11% in the end of last year. In addition to easing monetary policy, the government has been using other tools to boost the economy, including tax cuts for some sectors and incentives to credit.

The yield curve throughout Q1 moved downward in parallel fashion, with the market reflecting larger interest-rate cuts. The curve is still negatively inclined in the short end and in the middle, with the market pricing of the Interfinancial Deposit Certificate (CDI, in its Portuguese acronym) around 8.8% by the end of 2012. From that point onward, the inclination in the curve becomes positive again, pricing rates near 11.0% in the long end.

The exchange rate ended 1Q12 at R$1.82/US$, very close to the level seen in 4Q11 (R$1.87/US$). Throughout the quarter, the currency remained under pressure, influenced by appreciation in the U.S. dollar against other currencies in international markets.

International reserves reached US$365 billion in March 2012, slightly above US$352 billion in December 2011. The central bank purchased US$3.8 billion in the spot market in the period.

During 1Q12, the benchmark Bovespa stock index rose about 13.7%, recovering part of the loss in 3Q11. The improvement was influenced by greater risk appetite and moderation in pessimism regarding the situation of European countries. Following that movement, market capitalization in the Bovespa advanced to R$2.47 trillion, up from R$2.2 trillion in the end of 2011. Fixed-income issuance reached US$31.7 billion, while no equity issuance was registered.

International Market

During 1Q12, the improvement in sentiment in international markets was consolidated. The increase in liquidity promoted by the European Central Bank (BCE) and the improvement in the outlook for the global economy — with significant reduction in the risks regarding recession and financial crisis — contributed to the improvement in perception.

Another favorable factor was the positive surprise regarding activity in the U.S.A, decreasing the risk of greater contamination from the turmoil in Europe to the global economy. Growth in the second semester was above expectation, boosted by consumption and recovery in the industrial sector, after difficulties in the production chain caused by the earthquake in Japan early last year. However, growth in 2012 should be modest, influenced by the need among households to increase their savings rate, by the restrictive fiscal policy and by a certain contagion from the European crisis.

China should show smooth deceleration throughout the next quarters. Part of the accommodation results from measures adopted by the government, particularly in the construction sector. The government may action fiscal and monetary policies further, if necessary. The country's external position remains sound, household debt is low and consumption has potential to grow.

Due to high levels of aversion to risk and to the euro, the U.S. dollar continued to strengthen against other currencies. The DXY (Dollar Index Spot) – an index measuring the value of the dollar against six major currencies — fell 1.5% in Q1. Against the euro, depreciation reached 2.8%. However, we believe that, in the medium term, the trend of dollar depreciation should continue, fueled by the need to adjust the U.S. current-account deficit.

Slight decompression in risk aversion and the positive surprise regarding economic activity in the U.S. and Europe favored a recovery in international markets. The S&P 500 rose 17.8%, while the DAX was up 12.0% in Q1. Yields on 10-year U.S. Treasuries were higher at the margin, ending the quarter around 2.2%.

Trading and Banking Portfolios – Regulatory Model

For the regulatory monitoring of the portfolio classified as banking, two stressed scenarios based on historical returns of the past five years are generated for each relevant risk factor. These scenarios are applied to the exposure in each risk factor, calculating the P&L of these shocks and considering the worst P&L for each risk factor. For the treatment of the credit portfolio subject to relevant volumes of early terminations, Itaú Unibanco adopts statistical models with quarterly revisions of their parameters, estimated with their historical data, which anticipates the cash flows terms originally traded. For products without defined maturities, such as cash deposits and savings accounts, a projected gradual decrease in funds is used, for conservative reasons, reducing their hedge effect in relation to the remaining exposure of the institution.

In regard to the trading portfolio, the PJUR (1, 2, 3 and 4), PCOM and PACS portions are calculated in accordance with the instructions provided by the previously mentioned BACEN resolutions.

The evolution of the portions related to market risk is presented below, considering that PJUR (1, 2, 3 and 4), PCOM and PACS portions reflect the trading portfolio and the RBAN portion reflects the banking portfolio:

R$ million

Regulatory Portions Required for Market Risk Coverage						
	Financial system consolidated			Economic-financial consolidated		
	3/31/2012	12/31/2011	03/31/2011	3/31/2012	12/31/2011	03/31/2011
Regulatory portion required for market risk coverage of the trading book:	**2,088**	**1,078**	**1,056**	**2,051**	**1,076**	**1,034**
Trades subject to interest rate variation (PJUR)	**1,865**	**967**	**717**	**1,828**	**965**	**695**
Fixed income interest rate denominated in reais (PJUR1)	460	224	112	460	224	112
Foreign exchange linked interest rate (PJUR2)	845	488	361	808	486	339
Price index linked interest rate (PJUR3)	418	170	123	418	170	123
Interest rate linked interest rate (PJUR 4)	142	85	121	142	85	121
Trades subject to commodity price variation (PCOM)	**112**	**72**	**185**	**112**	**72**	**185**
Trades subject to equities price variation (PACS)	**111**	**39**	**154**	**111**	**39**	**154**
Trades subject to the risk of exposures in gold, foreign currency and foreign exchange rate variations (PCAM) [(1)]	**-**	**-**	**-**	**-**	**-**	**-**
Referential equity calculated for covering the interest rate risk of trades of the banking book (RBAN)	**1,335**	**1,383**	**1,298**	**1,582**	**1,605**	**1,416**

[(1)] Trades subject to the risk of exposures in gold, foreign currency and foreign exchange rate variations were less than 5% of the Referential Equity, therefore the capital allocation is equal to 0, according to the Circular No. 3,568.

Evolution of the Trading Portfolios

The evolution of the trading portfolio, broken down by risk factor, is tabulated below:

R$ million

Trading Position	03/31/2012		12/31/2011		3/31/2011	
	Long	Short	Long	Short	Long	Short
Interest rates	159,186	(136,970)	90,662	(117,106)	155,596	(183,718)
Foreign exchange rates	105,874	(103,580)	85,464	(84,826)	73,391	(73,498)
Equities	11,113	(11,472)	5,124	(5,033)	7,162	(6,611)
Commodities	269	(43)	135	(35)	1,352	(1,459)

Evolution of the Derivatives Portfolio

The main purpose of the positions in derivatives is to minimize the risks of the banking portfolio positions in the corresponding risk factors. The evolution of the institution's derivatives portfolio, broken down by group of risk factor, by the existence or absence of a central counterparty (exchange or over-the-counter market) and whether it is in Brazil or abroad, is presented below:

R$ million

Derivatives: Trades in Brazil – Trading + Banking – With Central Counterparty	03/31/2012		12/31/2011		03/31/2011	
	Long	Short	Long	Short	Long	Short
Interest rates	181,004	(274,537)	402,595	(483,108)	193,647	(269,967)
Foreign exchange rates	30,838	(46,104)	33,016	(49,608)	22,518	(32,988)
Equities	5,912	(4,855)	1,898	(1,252)	2,987	(1,549)
Commodities	159	(98)	66	(67)	153	(637)

R$ million

Derivatives: Trades in Brazil – Trading + Banking – Without Central Counterparty	03/31/2012		12/31/2011		03/31/2011	
	Long	Short	Long	Short	Long	Short
Interest rates	696,262	(697,152)	479,844	(497,362)	737,819	(812,765)
Foreign exchange rates	163,728	(165,173)	129,228	(130,488)	130,976	(131,764)
Equities	2,126	(2,984)	1,297	(1,830)	2,684	(3,796)
Commodities	873	(691)	667	(559)	1,042	(717)

R$ million

Derivatives: Foreign Trades – Trading + Banking – With Central Counterparty	03/31/2012		12/31/2011		3/31/2011	
	Long	Short	Long	Short	Long	Short
Interest rates	3,113	(697)	3,448	(824)	5,323	(1,797)
Foreign exchange rates	48,049	(47,689)	45,181	(45,030)	13,024	(14,627)
Equities	112	(393)	6	(53)	435	(407)
Commodities	246	(266)	94	(105)	151	(104)

R$ million

Derivatives: Foreign Trades – Trading + Banking – Without Central Counterparty	03/31/2012		12/31/2011		03/31/2011	
	Long	Short	Long	Short	Long	Short
Interest rates	97,843	(100,814)	49,653	(53,692)	27,527	(32,360)
Foreign exchange rates	660,518	(658,891)	610,704	(609,206)	221,777	(218,083)
Equities	173	(173)	63	(63)	54	(54)
Commodities	8	(5)	4	(1)	6	(0)

VaR – Consolidated Itaú Unibanco

The internal VaR model used by Itaú Unibanco considers a one-day holding period and a 99% confidence level. Volatilities and correlations are estimated based on a methodology that confers higher weight to the most recent information.

The table below shows the Consolidated Global VaR, comprising the portfolios of Itaú Unibanco and its subsidiaries abroad (*Banco Itaú BBA* International *S.A., Banco Itaú Argentina S.A., Banco Itaú Chile S.A., Banco Itaú Uruguai S.A.* and *Banco Itaú Paraguai S.A.*); showing where there are higher concentrations of market risk.

The consolidated Itaú Unibanco Holding S.A., maintaining its conservative management and portfolio diversification, kept its policy of operating within lower limits in relation to its capital. The reduction in the amounts presented in relation to the previous quarter is due to the decrease in volatility and reduction in positions.

R$ million

VaR – Itaú Unibanco Holding				
VaR by Risk Factor Group		**3/31/2012**	**12/31/2011**	**03/31/2011**
Itaú Unibanco	Interest rate	109.2	114.8	109.6
	Foreign exchange linked	20.7	23.6	19.9
	Foreign exchange rates	27.3	29.0	15.8
	Price index linked	27.0	21.1	20.4
	Equities	8.0	4.4	22.3
Itaú Unibanco Foreign Units	Banco Itaú BBA International	1.8	1.5	4.3
	Banco Itaú Argentina	2.5	3.7	2.3
	Banco Itaú Chile	9.2	5.3	4.4
	Banco Itaú Uruguay	1.2	0.7	0.3
	Banco Itaú Paraguay (1)	0.3	0.2	0.3
Diversification effect		(64.7)	(53.4)	(65.5)
Global VaR		**142.5**	**150.9**	**134.1**
Maximum Global VaR of the Quarter		**181.7**	**278.5**	**159.1**
Average Global VaR of the Quarter		**154.3**	**198.1**	**128.1**
Minimum Global VaR of the Quarter		**135.1**	**134.4**	**113.3**

Adjusted for tax purposes

(1) Calculation beginning on September 30th, 2010

VaR – Institutional Treasury

The Institutional Treasury maintains its risk management segregated in Banking and Trading Desks.

Banking Desk

The Banking Desk, which has a portfolio composed of commercial transactions and related financial instruments, reduced the Global VaR of its portfolio in the fourth quarter compared to the previous one. Conservative management of the portfolio composition enabled the average Global VaR to remain at lower levels in comparison to the bank's equity.

R$ million

VaR – Itaú Unibanco – Banking Desk			
VaR by Risk Factor Group	**3/31/2012**	**12/31/2011**	**03/31/2011**
Interest rate	96.6	95.2	91.6
Foreign exchange linked	17.4	23.6	13.1
Foreign exchange rates	3.1	4.9	0.4
Price index linked	20.5	17.9	9.0
Equities	4.2	5.0	4.8
Diversification effect	(55.4)	(49.2)	(39.8)
Total Global VaR	**86.3**	**97.5**	**79.1**
Maximum Global VaR of the Quarter	**110.8**	**171.5**	**130.7**
Average Global VaR of the Quarter	**86.2**	**117.9**	**86.5**
Minimum Global VaR of the Quarter	**62.4**	**84.5**	**68.9**

Adjusted for tax purposes

Since May, 1st 2011, the control of the Overseas portfolio (i.e., transactions not booked in Brazil) is managed together with the Banking Desk portfolio. In the first quarterly of 2011, the average Global VaR of Overseas portfolio was R$ 3.7 million.

Trading Desk

The Institutional Treasury Trading Desk acts to build positions aiming to optimize risk-weighted profit and loss.

Effective market risk control enabled Itaú Unibanco to manage efficiently market changes, as well as maintain the continuous improvement of diversification and sophistication of its transactions.

The Trading Desk seeks the best domestic and foreign market opportunities, within the pre-established limits, and is intended to create a well-diversified risk exposure.

In this context, the risk assumed by the Institutional Treasury did not change significantly, strengthening Itaú Unibanco's tendency to incur only limited market risk exposures in relation to its capital. The average Global VaR in the quarter remained below 1% of net equity of the institution.

R$ million

VaR – Itaú Unibanco – Trading Desk			
VaR by Risk Factor Group	**3/31/2012**	**12/31/2011**	**03/31/2011 (1)**
Interest rate	26.3	28.3	
Foreign exchange linked	9.7	7.5	
Foreign exchange rates	29.1	32.7	
Price index linked	8.2	4.7	
Equities	7.8	3.3	
Diversification effect	(27.1)	(22.6)	
Global VaR	**53.9**	**53.9**	
Maximum Global VaR of the Quarter	**85.3**	**117.1**	
Average Global VaR of the Quarter	**67.2**	**73.9**	
Minimum Global VaR of the Quarter	**47.1**	**47.5**	

Adjusted for tax purposes
(1) Desk created in June, 1st 2011 (unifying the portfolios of the Flow Book and Proprietary Trading Desks).

To improve the management of their assets, the Flow Book Trading Desk and Proprietary Trading Desk were unified, under the name Trading Desk, beginning June 1st, 2011. The average Global VaR of these desks in the first quarter of 2011 was R$ 8 million and R$ 59 million, respectively.

VaR – Foreign Units

Itaú Unibanco's foreign units are financial institutions based in different countries that operate with local treasuries whose market risk exposures are monitored by local risk control groups. These treasury and risk control groups report to equivalent structures of Itaú Unibanco Holding. These foreign units are *Banco Itaú BBA* International*, Banco Itaú Argentina, Banco Itaú Chile, Banco Itaú Uruguai* and *Banco Itaú Paraguai*.

The consolidated exposure of market risk of the foreing units in the first quarter, when compared to the previous one, reflected a significant increase as can be seen in the table below.

The Total VaR of the foreign units represents less than1% of the institution equity.

R$ million

VaR – Itaú Unibanco – Foreign Units				
VaR by Risk Factor		**3/31/2012**	**12/31/2011**	**03/31/2011**
Banco Itaú BBA International	Euribor	0.1	0.1	1.8
	Libor	0.7	0.7	1.0
	Foreign exchange rate	1.1	0.6	1.8
	Equities	0.0	0.0	0.0
	Other	0.0	0.3	0.0
	Diversification effect	(0.1)	(0.2)	(0.4)
	Global VaR IBBA International	**1.8**	**1.5**	**4.3**
Banco Itaú Argentina	Fixed income interest rate denominated in pesos (ARS)	3.1	2.9	2.5
	Inflation index linked interest rate (CER)	0.0	0.0	0.0
	Badlar	0.7	2.0	0.7
	Libor/USD	2.3	3.8	0.4
	Euros	0.3	0.2	0.3
	Diversification effect	(4.0)	(5.2)	(1.5)
	Global VaR Itaú Argentina	**2.5**	**3.7**	**2.3**
Banco Itaú Chile	Fixed income interest rate denominated in pesos (CLP)	1.8	0.8	1.2
	Inflation index linked interest rate (UF)	8.3	4.3	4.0
	Foreign exchange - Dollar	0.4	1.9	0.8
	Foreign exchange - Other currencies	0.0	0.0	0.0
	Diversification effect	(1.2)	(1.8)	(1.6)
	Global VaR Itaú Chile	**9.2**	**5.3**	**4.4**
Banco Itaú Uruguay	Fixed income interest rate denominated in pesos (UYU)	0.4	0.1	0.0
	Inflation index linked interest rate (UI)	0.4	0.7	0.2
	Foreign exchange linked interest rate - Dollar	0.9	0.1	0.2
	Foreign exchange rate - Dollar	0.2	0.0	0.2
	Diversification effect	(0.7)	(0.2)	(0.3)
	Global VaR Itaú Uruguay	**1.2**	**0.7**	**0.3**
Banco Itaú Paraguay [(1)]	Fixed income interest rate denominated in guaranis (PYG	0.1	0.0	0.3
	Foreign exchange linked interest rate - Dollar	0.3	0.2	0.1
	Foreign exchange rate - Dollar	0.1	0.0	0.1
	Diversification effect	(0.2)	(0.1)	(0.2)
	Global VaR Itaú Paraguay	**0.3**	**0.2**	**0.3**
	Total VaR	**15.0**	**11.4**	**11.6**

Adjusted for tax purposes

Sensitivity Analysis (Trading and Banking Books)

In compliance with the CVM Regulatory Instruction No. 475 of December 17, 2008, Itaú Unibanco carried out a sensitivity analysis by market risk factors to which the conglomerate was exposed that are considered relevant. Each market risk factor was analyzed based on the application of shocks of 25% and 50% for both growth and decline. The highest resulting losses, by risk factor, in each of the scenarios, were presented with an impact on results, net of tax effects, providing a view of the Itaú Unibanco's exposure in exceptional scenarios.

The sensitivity analyses of trading and banking portfolios here presented are an ecstatic assessment of the portfolio exposure and, therefore, does not consider the dynamic response capability of the management

(treasury and risk control areas) that, once a loss or a high risk related to these positions is identified, initiate mitigating measures, minimizing the possibility of significant losses. In addition, it should be noted that the P&L presented do not necessarily reflect accounting P&L since the study has the sole purpose of disclosing the risk exposures and the related hedging measures taking into consideration the fair value of the financial instruments, dissociated from any accounting practices adopted by the institution.

The trading portfolio consists of all transactions, including derivatives, with a short-term investments horizon, to hedge other instruments portfolio or arbitration results.

R$ thousand

Trading Portfolio				
	Exposures	Scenarios 03/31/2012[1]		
Risk Factors	**Risk of change in:**	**I**	**II**	**III**
Interest rate	Fixed income interest rates in reais	(1,047)	(26,046)	(51,848)
Foreign exchange linked	Foreign exchange linked interest rates	162	(4,169)	(8,593)
Foreign exchange rates	Prices of foreign currencies	(10,656)	(266,395)	(532,789)
Price index linked	Price indexes linked interest rates	(366)	(9,070)	(17,996)
TR	TR linked interest rates	363	(9,148)	(18,462)
Equities	Prices of equities	(2,070)	(51,748)	(103,497)
	Total without correlation	**(13,614)**	**(366,576)**	**(733,184)**
	Total with correlation	**(10,650)**	**(286,760)**	**(573,544)**

[1] *Amounts net of tax effects.*

The banking portfolio is composed of transactions that are not classified in the trading portfolio. It consists of transactions with medium and long term investment horizon and their respective hedges, as well as transactions executed for the active management of financial risks, which transactions may be executed with or without derivatives.

R$ thousand

Trading and Banking Portfolios				
	Exposures	Scenarios 03/31/2012[1]		
Risk Factors	**Risk of change in:**	**I**	**II**	**III**
Interest rate	Fixed income interest rates in reais	(3,344)	(83,297)	(165,952)
Foreign exchange linked	Foreign exchange linked interest rates	(1,047)	(25,954)	(51,472)
Foreign exchange rates	Prices of foreign currencies	1,026	(25,643)	(51,286)
Price index linked	Price indexes linked interest rates	(1,290)	(31,642)	(62,050)
TR	TR linked interest rates	(4,619)	(113,065)	(221,267)
Equities	Prices of equities	1,182	(29,552)	(59,104)
	Total without correlation	**(8,092)**	**(309,153)**	**(611,133)**
	Total with correlation	**(6,330)**	**(241,839)**	**(478,067)**

[1] *Amounts net of tax effects.*

In order to measure these sensitivities, the following scenarios are used:

- Scenario I: Addition of 1 basis point to the fixed income, FX-linked, inflation linked and interest rate indices linked interest rates curves, and 1 percentage point to currencies and equities prices, which are based on market information (BM&F BOVESPA - Brazilian Association of Financial and Capital Market Entities - Anbima, etc.);
- Scenario II: Shocks of 25 basis points to the fixed income, FX-linked, inflation linked and interest rate indices linked interest rates curves, and 25 percentage points to currencies and equities prices, increasing and decreasing the closing market data, considering the highest loss per risk factor.

- Scenario III: Shocks of 50 basis points to the fixed income, FX-linked, inflation linked and interest rate indices linked interest rates curves, and 50 percentage points to currencies and equities prices, increasing and decreasing the closing market data, considering the highest loss per risk factor.

Backtesting

The effectiveness of the VAR model is validated on a daily basis by the use of backtesting techniques that compare actual daily results with the estimated daily VaR. The number of violations to the VaR pre-established limits should be consistent, within an acceptable margin, with the hypothesis of 99% confidence intervals (i.e., there is a 1% probability that financial losses could be greater than the losses estimated by the model). Considering a 12-month time frame. As from 2012, the backtesting analyses presented below take into consideration the range groups suggested by the Basel document "Supervisory Framework for the use of backtesting in conjunction with the internal models approach to market risk capital requirements". The range groups are separated into:

- Green (0 to 4 violations): corresponds to backtesting results that do not suggest any problems with the quality or accuracy of the models adopted;
- Yellow (5 to 9 violations): refers to an intermediate range group, which indicates the need to pay attention and/or monitor; and
- Red (10 or more violations): shows the need for an improvement action.

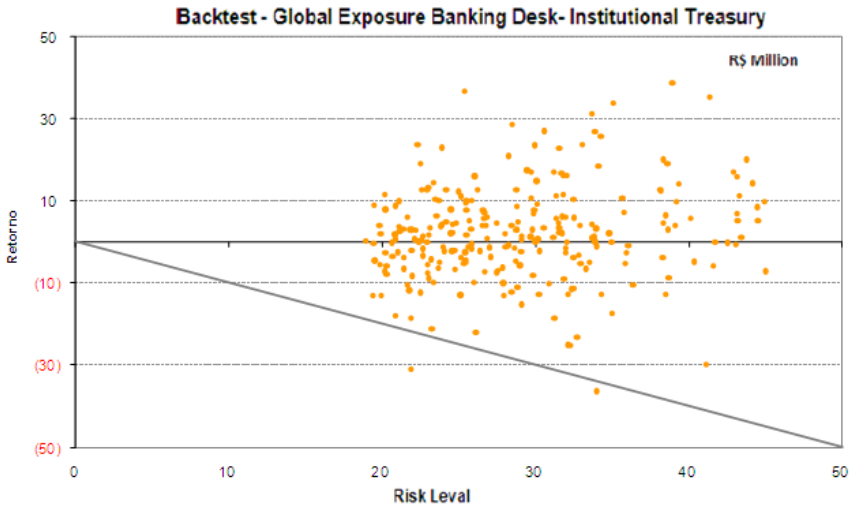
In order to illustrate the reliability of risk measures generated from the models used by Itaú Unibanco, we present below the backtesting graphs of the total Banking Desk portfolio and the fixed income interest rate risk factor, in order to be the most relevant risk factor of this desk, as well as the backtesting of the total Trading Desk portfolio, for the period of the last 12 months.

Due to the limited importance of the VaR amounts of the international operations, the following backtesting analyses refer only to the portfolio related to domestic operations.

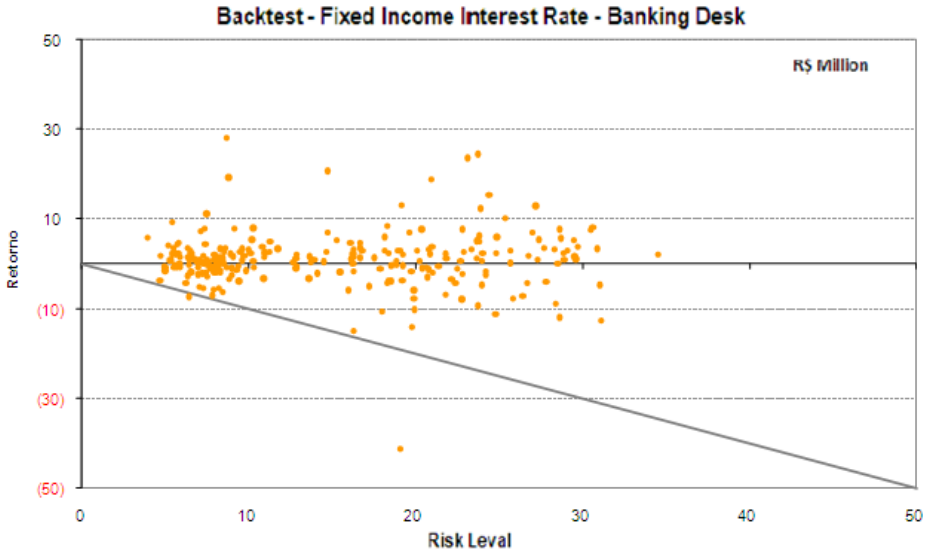
The graphs show the adequacy level of the market risk models used by Itaú Unibanco, presenting the risk (absolute value) versus the return pairs for the period considered.

Since the diagonal line represents risk equal to P&L, all the dots below this line indicate violations to the estimated risk.

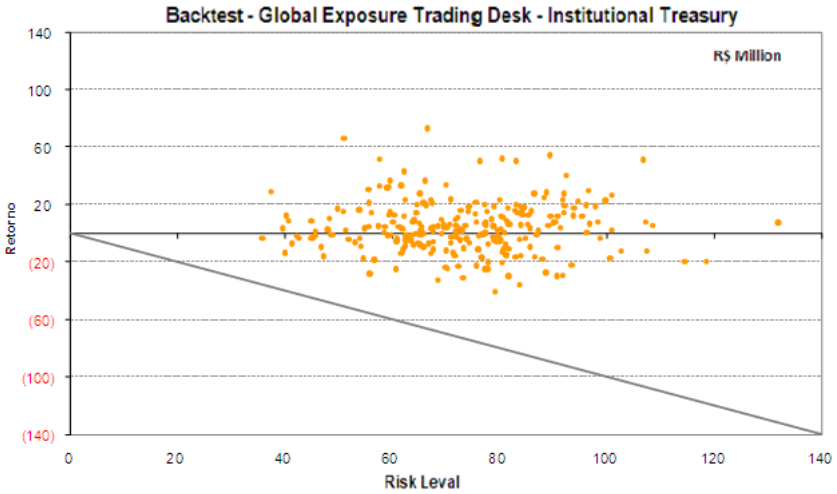
For the global VaR of the Banking Desk portfolio of the Institutional Treasury, financial losses exceeded the VaR estimated by the model on 2 days in the period, the backtesting of this portfolio is in the green range.



For the fixed income interest rate risk factor of the Banking Desk portfolio, financial losses exceeded the VaR estimated by the model on 2 days in the period, the backtesting of this factor is in the green range.



For the global VaR of the Trading Desk portfolio of the Institutional Treasury, no financial losses exceeded the VaR estimated by the model in the period, the backtesting of this factor is in the green range.



3.3 Operational Risk

On April 30th, 2008, BACEN published Circular No. 3,383 and Circular Letters No. 3,315 and No. 3,316 that established the criteria for determining the portion of the PRE related to the operational risk (POPR) addressed by CMN Resolution No. 3,490. Therefore, since July 1st, 2008, Itaú Unibanco began to allocate capital for operational risk through the Alternative Standardized Approach.

The amount of the POPR portion is calculated on a semiannual basis with information related to the closing balances at June 30th and December 31st and takes into consideration the most recent six-month periods.

As from June 30th, 2010, an additional portion was added to the POPR of the economic and financial consolidated by using an indicator based on equity in earnings of subsidiaries and affiliates.

R$ million

Operational Risk Exposure						
	Financial system consolidated			Economic-financial consolidated		
	3/31/2012	12/31/2011	03/31/2011	3/31/2012	12/31/2011	03/31/2011
Regulatory portion required for operational risk coverage (POPR)	**3,963**	**3,460**	**3,073**	**4,394**	**3,851**	**3,435**
Retail	607	562	521	607	562	521
Commercial	958	921	866	958	921	866
Corporate finance	88	82	74	88	82	74
Negotiation and sales	1,691	1,289	1,013	1,691	1,289	1,013
Payments and settlements	272	269	264	272	269	264
Financial agent services	139	128	119	139	128	119
Asset management	192	190	194	192	190	194
Retail brokerage	16	19	21	16	19	21
Business plans	-	-	1	-	-	1
Conef additional	-	-	-	431	391	362

3.4 Methodology for Determining Risks Not Covered in the PRE

Itaú Unibanco, in accordance with the recommendations of the Basel Accord and the best risk management practices, has internal models that identify the risks that are not covered in the PRE.

The market risk models take into consideration the risk of loss of the positions of banking book. Our internal economic capital model for credit risk includes the concentration risk. The risks of the insurance, pension plan and capitalization portfolio are also measured. In their management, we also take into consideration the residual risk related to the imperfections of the modeling processes, as well the impacts in stress situations.

The models are an effective part in Itaú Unibanco's risk management process and are monthly monitored by the risk areas and Commissions and Committees responsible for risk management.

3.5 Requirements for Regulatory Capital Allocation

Basel II

The current Basel Accord, commonly known as Basel II, suggests methodologies to compute the minimum capital to be maintained by financial institutions, making it more sensitive to the risks taken then previous methodologies used for Basel I. It´s disclosure occurred in June 2004, going through some revisions since then and is in various stages of deployment around the world.

In Brazil, the standardised methods of calculating capital for credit risk, market and operational risks are in effect since July 1st, 2008, while approaches based on internal models come with an implementation schedule set by the BACEN's Statement 19028, and in time, the BACEN, in collaboration with the financial industry, is adapting the guidelines of Basel II Accord to the characteristics and needs of the local market.

Itaú Unibanco bearing in mind that the full implementation of Basel II represents significant advances in the practice of risk management and helps to maintain the strength of the entire global financial system, have been contributing actively to its improvement and standardization through active participation in several forums, mainly the Institute of International Finance (IIF), Brazilian Federation of Banks (FEBRABAN) and BACEN.

The bank believes that the deployment of advanced approaches of Basel II will benefit the institution as it will promote greater alignment of regulatory requirements and internal management, which are already based on sophisticated models for identifying, measuring and monitoring risks.

In December 2010, BIS published the Basel III: A global regulatory framework for more resilient banks and banking systems", complementing Basel II Accord.

On March 8th of 2012, the BACEN issued the rules and deadlines for the Internal Ratings Based Approach (IRB) application, through Circular 3.581

Internal Models

In order to show full commitment of Itaú Unibanco's senior management to the requirements of more advanced models, a specific governance structure was created to monitor the implementation of Basel II in the form of Committees that meet regularly with the participation of all areas involved in the adequacy of the structures that support the risk management standards required by the New Accord.

The Basel II Project, in conformity with the merger of Banco Itaú with Unibanco, carried out in the first half of 2009 the unification of concepts, procedures and efforts in order to ensure that the best risk management practices were adopted by the new bank.

The risk management structure was also reviewed so as to reinforce the separation of business, management and control activities, ensuring the independence of the areas and, consequently, sensible decisions regarding the risks incurred, fully meeting the requirements of CMN Resolution No. 3,72.

In order to ensure quality standards in the models and processes that are essential for risk management, the bank has independent model validation, process, governance and technology validation structures. These areas are responsible for analyzing the methodologies and practices carried out by the institution in all areas that directly or indirectly contribute to any stage of the credit processes, issuing opinions and reports to the areas involved and to senior management, thus contributing to their effectiveness.

The project for the implementation of Basel II at Itaú Unibanco is structured to ensure that these structures work on a coordinated basis, with methodologies and processes that comply with Basel II and that are in synergy with data and infrastructure needs for the implementation of the system in charge of the consolidation of information to calculate the capital ratio for Basel II.

Convergence of Basel II with Proprietary Models

Itaú Unibanco has a history of use of proprietary, statistic or judgmental models to manage its portfolio that precedes the publication of the New Accord. These models are continuously reviewed in order to maintain efficiency in strategic and business decisions. Accordingly, the efforts of the Basel Project are mainly aimed at adapting needs to the standards and requirements imposed on the calculation of the regulatory capital without, however, moving away from the main internal management objectives.

In credit risk, there is convergence of the internal capital allocation model with the main requirements of Basel II due to the adoption of the same basic data input assumptions, such as internal client rating, default probability, overdue credit recovery ratio, potential losses of granted but not used credit limits, risk mitigating instruments and maturity of transactions.

With respect to the operational risk, on July 1st, 2008, a BACEN regulation that makes financial institutions to allocate capital to operational risk came into effect. Itaú Unibanco chose to use the Alternative Standardized Approach.

Regarding market risk, the efforts for convergence of Basel II with proprietary models are focused mainly in the improvement of the governance, the technological structure and the quality of the information generation for control and management. In this context, Itaú Unibanco seeks to apply the best market practices, as well as performing consultations and visits to referential international institutions, in order to conform to control requirements to support the expansion of their business.

Itaú Unibanco invests in the improvement of the capability and reliability of its risk control technological platform to support growing volumes and complexity of its trades, as well as the constant evolution of treasury products.

Basel III

Approved by the members of the Basel Committee on Banking Supervision during the G20 Summit held in Seoul in September 2010, the Basel III Accord was signed to strengthen the soundness of financial institutions and improve the ability of the banking industry to absorb shocks arising from crises and stress scenarios as those seen during the last global financial crisis. In Brazil, BACEN Release No. 20,615 of February 17th, 2011, communicates to the market that the capital requirement becomes gradually effective as from 2013 and full implementation is expected for 2019. Additionally, the Public Hearing Notice No. 40 of February 17th, 2012, proposes new rules and a schedule for the implementation of elements of the Basel III rules in Brazil, considering mainly the creation of a new consolidation center, covering financial institutions and the like, following, in general terms, the implementation schedule determined as an international standard by the Basel Committee.

Therefore, the adoption of final rules is still being discussed nationally and internationally. Itaú Unibanco actively participates in discussions and studies on Basel III with Brazilian and foreign regulatory agencies.

Since the publication of new accord, internal processes have been implemented to evaluate the impact of the changes, and new published concepts of the Basel III had been incorporated in the prospective analyses of capital and liquidity.

Itaú Unibanco intends not only to be in compliance with these ratios, but also to maintain liquidity, resulting in ratios that are higher than the minimum requirements of the Basel III.

4 Sufficiency of Capital

Itaú Unibanco maintains proper levels of PR in relation to the PRE, which is a regulatory minimum requirement. We compare, on a systematic basis, this minimum requirement with our internal estimates of required economic capital and we concluded that the PRE is, in aggregate, sufficient to cover the risks incurred, including those that are not directly covered in the PRE.

On March 31, 2012, the PR totaled R$ 93,951 million, a increase of R$ 840 million in relation to December 31, 2011, even with the effect of the reduction of stockholders' equity due to the additional payment of interest on capital and the increased share of subordinated debts maturing in less than 5 years. In comparison with the same period of the previous year, the PR showed an increase of R$ 11,643 million.

R$ million

Composition of PR	Financial system consolidated			Economic-financial consolidated		
	3/31/2012	12/31/2011	03/31/2011	3/31/2012	12/31/2011	03/31/2011
Tier I	**72,113**	**71,051**	**63,320**	**72,860**	**71,602**	**65,151**
Tier II	**21,124**	**21,564**	**17,305**	**21,124**	**21,565**	**17,305**
Exclusions: Funding instruments issued by financial institutions	(33)	(55)	(148)	(33)	(55)	(148)
Referential Equity (PR)	**93,204**	**92,561**	**80,477**	**93,951**	**93,111**	**82,308**
Required Referential Equity (PRE)	**65,638**	**63,727**	**54,944**	**64,331**	**62,556**	**56,388**
Excess capital in relation to Required Referential Equity	**27,566**	**28,833**	**25,533**	**29,620**	**30,555**	**25,920**

In order to ensure the robustness of the institution and the availability of capital to support business growth, we maintain PR levels that are way above the minimum levels, according to the Basel Ratio. Therefore, our capital levels are quite sufficient in view of the entailed risks.

The BIS ratio of the economic and financial consolidated reached 16.1%, showing a reduction of 30 basis points in relation to December 31, 2011, mainly as a result of the effect of the reduction of stockholders' equity by approximately R$ 1,847 million due to the additional payment of interest on capital on March 13, 2012, and the implementation of the new systems for the calculation of the portions related to market risk. The increased share of subordinated debts maturing in less than 5 years, which no longer fully contribute to the composition of the referential equity, also contributed to this variation.

The BIS ratio of the financial system consolidated reached 15.6% on March 31, 2012. The difference between the BIS ratio of the financial system consolidated and that of the economic and financial consolidated arises from the inclusion of non-financial subsidiaries in the economic and financial consolidated and the funds of which can be distributed to financial companies by means of the payment of dividends/interest on capital or corporate restructuring.

The fixed asset ratio shows the percentage at which the PR is committed to the permanent assets. Itaú Unibanco is within the maximum limit of 50% on the Adjusted PR, established by BACEN.

R$ million

Basel and Fixed Asset Ratios	Financial system consolidated			Economic-financial consolidated		
	3/31/2012	12/31/2011	03/31/2011	3/31/2012	12/31/2011	03/31/2011
Basel ratio	**15.6%**	**16.0%**	**16.1%**	**16.1%**	**16.4%**	**16.1%**
Tier I	12.1%	12.3%	12.6%	12.5%	12.6%	12.7%
Tier II	3.5%	3.7%	3.5%	3.6%	3.8%	3.4%
Fixed assets ratio	**45.0%**	**48.6%**	**37.9%**	**14.1%**	**14.4%**	**15.2%**
Excess capital in relation to fixed assets	4,661	1,272	9,775	33,751	33,148	28,626