Risk Management

Pillar 3

Itaú Unibanco Holding S.A.



4th Quarter of 2013

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Objective

This document aims at presenting information about Itaú Unibanco Holding S.A. (Itaú Unibanco) as required by Central Bank of Brazil (BACEN) Circular No. 3,477, of December 24th, 2009, regarding disclosure of risk management, Required Referential Equity (PRE) and adequacy of the Referential Equity (PR), aligned with institutional policies of Itaú Unibanco.

On October 31st, 2013, the Central Bank of Brazil (BACEN) published the Circular No. 3,678, which provides information related to risk management, the assessment of the risk-weighted assets and the the assessment of the referential equity, in line with the new capital rules. Circular No. 3,678 substitutes Circular No. 3,477 from June 2014.

For other information than the contained on this document, please visit www.itau-unibanco.com/ri.

Executive Summary

Itaú Unibanco's risk and capital management focuses on maintain the institution's risk profile in line with the risk strategy and guidelines approved by the Board of Directors. The main metrics of the Operational Conglomerate, as of 31st of December of 2013, are summarized below:

Capital Adequacy

The Referential Equity reached R$ 125,144 million, from which R$ 87,409 million are classified as Common Equity Tier I and R$ 37,734 million as Capital Tier II.

Itaú Unibanco's total risk-weighted assets (RWA) amounted to 755,441 million, where R$ 694,039 million refers to the credit RWA, R$ 24,555 to the market RWA and R$ 36,847 to the operational RWA. The largest shift was on the credit RWA and is mostly explained by the inclusion of new weights and credits to release, as well by the incorporation of the Credicard portfolio.

The BIS ratio was 16.6%, consisting of 11.6% of Common Equity Tier I and 5% of Tier II capital. Compared to the previous quarter, the Basel ratio decreased 1.4 percentage points. This reduction is mainly explained by the implementation of the new capital requirement assessment rules, which came in effect on October 2013.

Credit Risk

The exposure of the credit risk portfolio, netted from allowance for loan losses (including sureties, endorsements and credit commitments) reached R$ 564,981 million.

Concentration on the 100 largest debtors in loans, leases and other credits represents 22.2% of total portfolio.

Allowance for loan losses amounted to R$ 26,317 million, increasing from the R$ 25,597 million registered in the previous quarter. This is mainly explained by the consolidation of Credicard. Not considering this deal, allowance for loan losses would have been decreased by 2.2 percentage points.

Market Risk

Itaú Unibanco, maintaining its conservative and diversified management focus, operated within reduced limits in relation to its capital. The average Global VaR of R$ 152,8 million remained below 1% of Itau Unibanco´s net equity. The decrease, as compared to the previous quarter, results from changes in the positions held and an observed volatility reduction for some risk factors.

1 Risk and Capital Management

Itaú Unibanco understands risk management as essential to optimize the use of resources, and to select the best business opportunities, seeking to maximize value creation for its shareholders.

The Risk Management process at Itaú Unibanco seeks that:

- Existing and potential risks to Itaú Unibanco's positions are identified and measured;
- Risk Management and Control institutional policies, procedures and methodologies are aligned with the directives from, and approved by, the Board of Directors;
- Itaú Unibanco's portfolio management seeks the best risk-return ratios.

The risk identification process purpose is to map internal and external risk threats that may affect the business' and support units' strategies, keeping them from achieving their goals, potentially impacting Itaú Unibanco's results, capital, liquidity and reputation.

The risk management processes permeate the entire institution and are aligned with the Board of Directors and the Senior Management directives, which, define the overall objectives, through targets and limits for business units, through Committees and Superiors Commissions. The capital management and control units support Itaú Unibanco's management through monitoring and analyzing risk and capital processes.

According to Resolution No. 3,988 of the National Monetary Council (CMN), BACEN Circular No. 3,547 and BACEN Circular Letter No. 3,565, Itaú Unibanco implemented a capital management structure and the Internal Capital Adequacy Assessment Process (ICAAP), having submitted to BACEN the first ICAAP report on September 2013, with information regarding June 2013.

Itaú Unibanco's adopts a prospective capital management attitude which comprises of:

- Identification and analysis of the material risks to which Itaú Unibanco is or may be exposed, and assessment of the adequate capital needed to face them;
- Capital planning, which takes into account the strategic guidelines, economic environment and the Board of Directors directives;
- Stress tests, aimed at analyzing Itau Unibanco's funding level's behavior under severe stress events;
- Maintaining an updated capital contingency plan for situations where funding sources are unavailable or insufficient;
- An internal capital adequacy assessment framework, which assesses the Referential Equity in relation to the adequacy of the capital needed to face the inherent risks;
- Periodic capital adequacy management reports, submitted to the senior management and Board of Directors members.

The guidelines of the institutional capital management policy can be accessed at http://www.itau-unibanco.com/ri, under Corporate Governance, Regulations and Policies, Public Access Report – Capital Management.

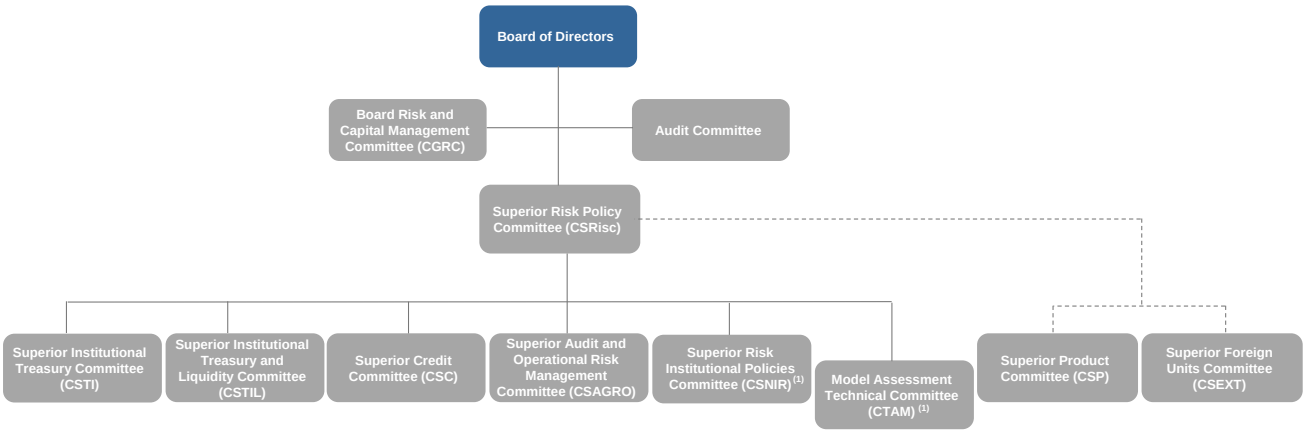
1.1 Organizational Structure

Itaú Unibanco's risk management organizational structure complies with Brazilian and international regulations and is aligned with the market's best practices. The credit, market, liquidity, operational and underwriting risks control is centrally performed by an independent division, ensuring the risks, to which Itaú Unibanco is exposed, are managed in accordance with the group risk appetite, policies and procedures in place. This independent division is as well responsible for centralizing Itaú Unibanco's capital management. The purpose of the centralized control is to provide the Board and the Senior Management with a global perspective of Itaú Unibanco's risk exposure, as well as with a prospective understanding of capital adequacy, enhancing the agility and optimization of corporate decisions.

Itaú Unibanco in-house developed information technology (IT) systems are managed to fully comply with Central Bank's requirements on capital adequacy and risk measurement, in accordance to regulatory models and requirements in place. It also monitors adherence to the qualitative and quantitative authorities' minimum capital and risk management requirements.

1.2 Risk and Capital Governance

Itaú Unibanco established risk and capital management committees that report directly to the Board of Directors. Members of these committees are elected or appointed by the board. At the executive level, Risk is managed by the Superiors Commissions, all of which, chaired by the President of Itaú Unibanco.



(1) CSNIR and CTAM are chaired by Itaú Unibanco's risk vice-president.

Board Risk and Capital Management Committee (CGRC)

The CGRC is responsible for supporting the Board of Directors in its risk and capital management functions, submitting reports and recommendations for the Board's analysis and deliberation regarding:

- The supervision of Itaú Unibanco's risk and capital management and control activities, ensuring capital adequacy to the risk exposure level and to the complexity of the operations, as well as compliance with regulatory requirements;
- Reviewing and approving capital management institutional policies and strategies, which establish mechanisms and procedures aimed at maintaining capital compatible with the risks incurred by Itaú Unibanco;
- Setting the minimum expected return on capital for Itau Unibanco as a whole, as well as for each business line, and monitoring their performances;
- Supervising compensation framework, including incentives, ensuring alignment with the risk control and wealth creation objectives;
- Promoting the improvement of Itaú Unibanco's risk culture.

Audit Committee

There is a single Audit Committee for all of the institutions authorized to operate by BACEN and companies supervised by the Superintendence of Private Insurance (SUSEP) that are part of Itaú Unibanco. In accordance with its internal regulation, approved by the Board of Directors, the Audit Committee is responsible for overseeing the quality and integrity of the Financial Statements and compliance with legal and regulatory requirements, as well as for supervising:

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

In addition, the Committee shall, individually or together with the respective independent auditors, formally inform the regulators about possible evidences concerning:

- Non-compliance with legal and regulatory rules that may risk the continuity of any company controlled by Itaú Unibanco;
- Frauds, of any degree, committed by the management of any of the Itaú Unibanco's companies;
- Relevant frauds committed by employees of any of Itaú Unibanco's companies, or by third party contractors; and
- Errors that result in material inaccuracies of the Financial Statements from any of the companies of Itaú Unibanco.

Superior Risk Policy Committee (CSRisc)

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

- Establishing general risk policies that define the governance and approval authority levels, for the specific forums responsible for risk management;
- Approving the necessary procedures for effective compliance with the institutional policies and processes established;
- Approving capital impacting risk decisions and reviewing the decisions taken by Committees within its authority level;
- Establishing and monitoring aggregated limits for each risk type;
- Ensuring, over time, the consistency of Itaú Unibanco's capital and risk management;
- Monitoring the risk and capital management tools implementation;
- Approving risk assessment and capital calculation methodologies.

Superior Institutional Treasury Committee (CSTI)

The CSTI meets on a monthly basis. The main responsibilities are to discuss and decide, within the authority delegated by the CSRisc about:

- Market risk exposure limits and positions' maximum loss limits (including under stress conditions), within the limits defined by the CSRisc, and establishing additional controls and limits whenever necessary;
- The scope and approval authority level delegated to the Institutional Treasury Management Committee (CGTI);
- The retention periods for the main types of risks, in view of the sizes of the positions and market's liquidity;
- The positions for which this Committee is responsible;
- Risk control models and procedures, including those complementary to the ones delegated by the CSRisc;
- Treasury's operational risk matters and limits;
- Stop loss policies;
- Compensation policies;

- Accounting hedge strategies.

Superior Institutional Treasury and Liquidity Committee (CSTIL)

The CSTIL meets on a quarterly basis. The main responsibilities are:

- To control liquidity limits usage;
- To analyze current and future levels of liquidity and to promote actions seeking safe and efficient cash flows for Itaú Unibanco;
- To discuss and decide within the authority delegated by the CSRisc: maximum liquidity gap limits, minimum reserve levels, the financial markets funding and investment policy, the transfer pricing criteria for Itaú Unibanco's companies and the liquidity contingency plan.

Superior Credit Committee (CSC)

The CSC meets on a weekly basis to discuss the credit risk of Itaú Unibanco, and is the maximum level to approve individual credits. Its main responsibilities are to:

- Analyze and decide on credit proposals that are beyond the authority of the Credit Commissions and Committees subordinated to it;
- Analyze and decide on changes of the maximum credit authority levels of the Credit Commissions and Committees subordinated to it;
- Analyze and decide on credit risk polices of the Wholesale Bank;
- Review transactions that didn't reach consensus at the committee immediately subordinate to it, or that were submitted to its appreciation due to the transactions relevance or particular characteristics;

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, define the guidelines for managing operational risks, and assess the results from the Itaú Unibanco Internal Control and Compliance System operation. 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 provisioning and capital allocation models for operational risk;
- The analysis of the results of Internal Controls, Operational Risks and Legal Compliance activities.

Superior Risk Institutional Policies Committee (CSNIR)

The CSNIR meets every two months, with the purpose of reviewing, validating and approving, within the authority level delegated by the CSRisc, the risk control and capital management institutional policies.

Model Assessment Technical Committee (CTAM)

The CTAM meets on a monthly basis to assess risk models, based on the independent opinion of the model validation area. Its main responsibilities are:

- To approve risk and pricing models;
- To suggest, approve and monitor action plans proposed for validated models;

- To follow-up the models long term performance, determining the redevelopment or readjustment of models whenever necessary.

Decisions are subsequently presented at the CSRisc, to ensure that the top management is informed about the decisions.

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 it is the highest level of authority for approving initiatives, 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, internal control, audit and technology;
- To make decisions with respect to initiatives, 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.

2 Capital

2.1 Capital Management

The Board of Directors is the ultimate body in the Itaú Unibanco's capital management and it is responsible for monitoring the capital adequacy and analyzing the results of the ICAAP independent validation, as well as for approving the capital management institutional policy and the ICAAP report. At the executive level, the CSRisc is responsible for approving risk assessment and capital calculation methodologies, as well as reviewing, monitoring and recommending capital-related documents and topics to the Board of Directors. As for the Commissions and Committees governance, Itaú Unibanco has a dedicated structure for capital management, which consolidates information and coordinates related processes, all of which subject to verification by the independent validation, internal controls and audit areas.

The capital plan is consistent with the Itaú Unibanco's strategic plan, and is aimed at ensuring the maintenance of an adequate and sustainable capital level, taking into account analyses of the economic, competitive and political environments, besides other external factors. The capital plan comprises the following:

- Short and long-term capital goals and projections of Itaú Unibanco, under normal and stress scenarios, according to the Board of Directors' guidelines;
- Main sources of capital;
- Contingency capital plan, containing actions to be taken in case of a potential capital deficiency.

During its development, at least the following is considered:

- Analysis of the threats and opportunities related to the economic and business environment;
- Projections about balance sheets and income;
- Targets for growth and/or market share;
- Segments targeted by the institution and their related products;
- Profit sharing policy and its impacts on capital.

As part of the capital plan, stress tests are applied, considering severe events, aiming at finding potential capital shortages. The stress scenarios are approved by the Board of Directors and their impacts on capital are considered for devising the strategy, business positioning and capital.

Complementary to the capital assessment for Pillar 1 risks, Itaú Unibanco have been developing mechanisms for identifying and analyzing the materiality of other risks faced by the institution, besides methodologies for assessing and quantifying the need for additional capital to cover them.

In order to provide the necessary information for supporting decision taking by the Executives and the Board of Directors, management reports are prepared and presented at Commissions and Committees, informing about Itau Unibanco's capital adequacy, as well as about the projections of future capital levels in normal and stress situations.

2.2 Basel II Adequacy

Basel II

The current international Basel Accord, commonly known as Basel II, suggests methodologies for assessing the capital to be maintained by financial institutions. It was disclosed in June 2004, and reviewed a few times since. Recently, due to the international crisis, some deeper changes have been incorporated (known as Basel III), however, without modifying the essence of the Accord.

In Brazil, the standard method for assessing capital for credit, market and operational risks have been in effect since July 1st, 2008. The main rules for capital allocation have been changing so as to adapt to the international standards. The current established rules can be found at CMN Resolutions No. 4,192, 4,193, 4,278, 4,280 and 4,281. Further details on these rules are outlined in Basel III item - new capital rules.

The rules for the candidacy for using the internal models based approach were also changed, and are described in Circulars No. 3,646 for market risk, No. 3,647 for operational risk and No. 3,648 for credit risk, all effective since October 1st, 2013. BACEN amended some provisions for these rules in Circulars No. 3,674; 3,676 and 3,673 for market, operational and credit risks respectively, and these came into effect on January 1st, 2014.

Internal Models

Itaú Unibanco has a specific governance structure to monitor the implementation of Basel II, which consists of Committees that meet regularly, composed by members from all areas involved in the adequacy of the structures, processes and systems developed for maintaining the risk management standards required by the New Accord.

The institution's risk management already has proprietary models for risk management that are continuously monitored, and reviewed whenever necessary, aiming at ensuring effectiveness in strategic and business decisions. Therefore, the Basel Project efforts are mainly taken to guarantee adherence to the established standards and requirements, through the use of internal models for calculating regulatory capital, without, however, distancing them from their main internal management goals. Meetings with the regulating authority are frequently held to discuss the implementation of the risk management requirements for Itaú Unibanco.

Independent Validation

Following the best practices introduced by the BIS, Itaú Unibanco validates, in an independent way, processes and risk models.

The independent process validation aims at identifying, measuring, evaluating, monitoring and responding to the operational risks of the organization, with the purpose of maintaining the losses and risks within the limits established by the institution.

The independent risk models validation of Itaú Unibanco focuses on ensuring that models used for management are robust, through independent technical evaluation. The validation results are submitted to the CTAM, which is subordinated to the CSRisc, ensuring top management involvement.

The validation scope comprises all risk models of the corporation, focusing on credit risk models (credit score, risk rating, PD, LGD and EAD), market risk models and models for pricing financial instruments.

Complementing the independent validation process, the use of credit risk parameters is validated, through the assessment of the integration level of these parameters in each stage of the credit decision-making process (granting, pricing, monitoring and recovery), at a continuous basis, integrated to the business management processes.

Basel III - New capital rules

In March and October 2013, Central Bank of Brazil published a set of resolutions[1] and circulars in regard to the adoption of the global standards of capital requirement from Basel III. The new rules aim at increasing the capacity of financial institutions to absorb shocks, increasing the strength of the financial system and promoting sustainable economic growth.

These documents disclose new definitions and minimum capital requirements, and determine which companies shall compose the prudential consolidated balance, to be used in assessing the capital and requirements. As from January 2015 the new capital definitions will gradually restrict the instruments eligible for composing capital, converging to BASEL III requirements, as the prudential adjustments are deducted from the capital basis, as per transition schedule.

Basel III - Schedule

	10/01/2013	01/01/2014	01/01/2015	01/01/2016	01/01/2017	01/01/2018	01/01/2019
Common Equity Tier 1	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
Tier 1	5.5%	5.5%	6.0%	6.0%	6.0%	6.0%	6.0%
Total Capital	11.0%	11.0%	11.0%	9.875%	9.250%	8.625%	8.0%
Additional Equity Tier 1 (1)	-	-	-	1.250%	2.500%	3.750%	5.000%
Capital Conservation Buffer (2)	-	-	-	0.625%	1.250%	1.875%	2.500%
Countercyclical Capital Buffer (3)	0%	0%	0%	0.625%	1.250%	1.875%	2.500%
Equity Tier 1 with Additional	**4.5%**	**4.5%**	**4.5%**	**5.750%**	**7.000%**	**8.250%**	**9.500%**
Tier I with Additional	**5.5%**	**5.5%**	**6.0%**	**7.250%**	**8.500%**	**9.750%**	**11.000%**
Total Capital with Additional	**11.0%**	**11.0%**	**11.0%**	**11.125%**	**11.750%**	**12.375%**	**13.000%**
Prudential adjustments deductions	**0%**	**20%**	**40%**	**60%**	**80%**	**100%**	**100%**

(1) Considering the upper limit (maximum requirement), due to conservatism.

(2) Lower limit (minimum requirement).

(3) Considering the largest range between the lower and higher limits.

In addition to the new minimum capital ratios (Common Equity Tier I, Tier I Capital and Total Capital), BACEN rules establish the creation of the Additional Tier I Capital (conservation and counter-cyclical capital buffers) which increases the requirements for long-term capital and defines new requirements for qualifying Tier I and Tier II eligible instruments. The rules also establish gradual eligibility reduction for inventory instruments issued on the terms of Resolution No. 3,444 of CMN.

The new rules determine that, during 2014, the minimum capital level must be assessed based on a single consolidation center, the Operational Conglomerate. As of January 2015, the Operational Conglomerate will be replaced by the Prudential Conglomerate, which includes to the financial companies, the companies that are similar to financial institutions, such as leasing companies, payment institutions, securitization companies and investment funds to which the conglomerate is substantially exposed.

The Law No. 12,838 complements the resolutions and circulars, by allowing assessment of the deemed credit through tax credits arising from temporary differences from allowances for doubtful debts; changes the rules for issuing financial bills, allowing inclusion of clauses for suspension of compensation and/or extinction of credit rights or its conversion into equity; and conditions stockholders' remuneration to compliance with the prudential requirements established by the CMN.

[1] CMN Resolutions No. 4,192, No. 4,193 and No. 4,195 (CMN Resolution No. 4,194 does not apply to Itaú Unibanco), from March 1st, 2013, along with the amendments introduced by Resolutions No. 4,277, No. 4,278, No. 4,279, No. 4,280 and No. 4,281, from October 31st, 2013, as well as the 15 Circulars published by BACEN on March 4th, 2013, partially amended on March 27th, 2013 and on October 31st, 2013, are the regulations that establish the Basel III requirements in Brazil.

2.3 Capital Composition

The PR, used to monitor compliance with the operational limits imposed by BACEN, is the sum of Tier I and Tier II, pursuant to CMN Resolutions Nos. 4,192 and 4,278, where:

- Tier I: comprises the Common Equity Tier I, based on the social capital, selected reserves and retained earnings, net from deductions and prudential adjustments, as well as the Additional Tier I Capital;
- Tier II: comprises as eligible instruments, primarily, subordinated debts, subject to prudential limits.

According to BACEN regulations, in effect since October 2013, banks must calculate the minimum requirement for the all financial subsidiaries regulated by BACEN, including branches and foreign investments, in a consolidated way (Financial Conglomerate).

The table below presents the composition of the referential equity and its components Common Equity Tier I, Additional Tier I and Tier II capital, taking into consideration their respective deductions and prudential adjustments, as per Resolutions mentioned:

Referential Equity Composition *R$ million*

	Financial Conglomerate		
	12/31/2013	9/30/2013	12/31/2012
Stockholders' equity Itaú Unibanco Holding S.A. (Consolidated)	**81,024**	**78,260**	**74,220**
Minority Interest in Subsidiaries	1,822	1,762	1,246
Changes in ownership interest in a subsidiary in capital transactions	6,120	6,445	7,360
Unrealized Results	-	-	-
Consolidated Stockholders' Equity (BACEN)	**88,966**	**86,467**	**82,825**
Preferred shares with clause of redemption excluded from Tier I	(925)	(877)	(807)
Deductions	(632)		
Common Equity Tier I	**87,409**	**-**	**-**
Instruments eligible to comprise Additional Tier Ir	-	-	-
Additional Tier I deductions	-	-	-
Additional Tier I Capital	**-**	**-**	**-**
Tier I adjustments	-	69	(2,307)
Tier I	**87,409**	**85,659**	**79,711**
Instruments eligible to comprise Tier II	37,740	38,425	38,825
Tier II deductions	(6)	-	-
Tier II adjustments	-	(655)	1,830
Tier II	**37,734**	**37,771**	**40,654**
Deductions: Funding instruments issued by Financial Institutions	-	(492)	(420)
Referential Equity (Tier I + Tier II)	**125,144**	**122,938**	**119,945**

Funds obtained through the issue of subordinated debts that compose Tier II capital, for the purpose of the ratio between capital and risk-weighted assets, are described below:

Subordinated Debt and Referential Equity Tier II

R$ million

	Maturities						12/31/2013	9/30/2013	12/31/2012
Name of instrument	**<1 year**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**> 5 years**	**Total**	**Total**	**Total**
Bank Deposit Certificate (CDB)	5,382	795	5,157	594	-	-	11,928	11,754	11,336
Financial Bills	476	-	2,283	8,334	11,049	2,840	24,982	24,798	23,371
Euronotes	255	-	-	-	-	18,021	18,276	17,397	15,706
Subordinated Debt	**6,113**	**795**	**7,440**	**8,928**	**11,049**	**20,861**	**55,186**	**53,949**	**50,413**
Subject to approval - BACEN [1] and Other	20	-	82	-	-	351	453	444	1,618
Subordinated Debt - Total	**6,133**	**795**	**7,522**	**8,928**	**11,049**	**21,212**	**55,639**	**54,393**	**52,031**
Subordinated Debt Reducer (Fin. Congl.)[2]	(3,367)	(3,961)	(436)	(2,799)	(1,748)	-	(12,310)	(15,524)	(11,628)
Subordinated Debt - Tier II (Fin. Congl.)	**-**	**990**	**290**	**4,198**	**6,993**	**29,139**	**41,611**	**38,425**	**38,785**
Threshold [3] Subordinated debt (Fin. Congl.)	-	891	261	3,779	6,294	26,225	37,450		
Subordinated debt - Tier II (Fin. Congl.)	**-**	**891**	**261**	**3,779**	**6,294**	**26,225**	**37,450**		
Total - 09/30/2013	**-**	**489**	**2,536**	**5,292**	**7,628**	**22,481**	**38,425**		
Total - 12/31/2012	**-**	**990**	**290**	**4,198**	**6,994**	**26,353**	**38,825**		

[1] *Subordinated debt that does not make up the Tier II (PR)*

[2] *According to current legislation, the accounting balance of subordinated debt as of December 2012 was used for the calculation of referential equity as of December, 2013, considering instruments approved after closing date to compose Tier 2, totaling R$ 53,921.*

(3) Subordinated debt with application of threshold in accordance with the current rules (Resolution 4.192/13 - Art 28)

Details concerning maturities, compensation, principal amount, accounting balance and subordinated debt balance are described next:

Subordinated Debts Elegibles to Capital

R$ million

Name of instrument/ Currency	Issue	Maturity	Compensation p.a.	12/31/2013 Principal Value	9/30/2013 Principal Value	12/31/2012 Principal Value	dec/13-sep/13 Variation	dec/13-dec/12 Variation	12/31/2013 Accouting Balance
Subordinated CDB [1] - BRL									
	2002	2012	102.5% of CDI	-	-	-	-	-	-
	2007	2012	103.8% of CDI	-	-	-	-	-	-
			100% of CDI + 0.35% to 0.45%	-	-	-	-	-	-
			IGPM + 7.31%	-	-	-	-	-	-
	2003	2013	102% of CDI	-	40	40	(40)	(40)	-
	2008	2013	100% of CDI + 0.5% to 0.6%	-	-	1,558	-	(1,558)	-
			106% to 107% of CDI	-	-	48	-	(48)	-
	2007	2014	100% do CDI + 0.35% a 0.6%	1,865	1,865	1,865	-	-	3,610
			IGPM + 7.22%	33	33	33	-	-	77
	2008	2014	112% of CDI	1,000	1,000	1,000	-	-	1,695
	2008	2015	119.8% of CDI	400	400	400	-	-	720
	2010	2015	113% of CDI	50	50	50	-	-	75
	2006	2016	100% of CDI + 0.7% [1]	466	466	466	-	-	971
	2010	2016	110% to 114% of CDI	2,665	2,665	2,665	-	-	3,988
			IPCA + 7.21%	123	123	123	-	1	198
	2010	2017	IPCA + 7.33%	367	367	367	-	-	594
			Total	**6,969**	**7,009**	**8,614**	**(40)**	**(1,645)**	**11,928**
Subordinated Financial Bills - BRL									
	2010	2016	100% of CDI + 1.35% a 1.36%	365	365	365	-	-	378
			112% a 112.5% of CDI	1,874	1,874	1,874	-	-	1,940
			IPCA + 7%	30	30	30	-	-	44
	2010	2017	IPCA + 6.95% a 7.2%	206	206	206	-	-	261
	2011	2017	108% to 112% of CDI	3,224	3,224	3,224	-	-	3,356
			100% of CDI + 1.29% a 1.52%	3,650	3,650	3,650	-	-	3,740
			IPCA + 6.15% to 7.8%	352	352	352	-	-	451
			IGPM + 6.55% to 7.6%	138	138	138	-	-	184
	2012	2017	100% of CDI + 1.12%	500	500	500	-	-	504
	2011	2018	IGPM + 7%	42	42	42	-	-	53
			IPCA + 7.53% to 7.7%	30	30	30	-	-	37
	2012	2018	108% to 113% of CDI	6,373	6,373	5,761	-	612	6,645
			IPCA + 4.4% to 6.58%	461	461	461	-	-	554
			100% of CDI + 1.01% to 1.32%	3,782	3,782	2,597	-	1,185	3,859
			9.95% to 11.95%	112	112	112	-	-	130
	2011	2019	109% to 109.7% of CDI	2	2	2	-	-	2
	2012	2019	110% of CDI	1	1	1	-	-	1
			12.0%	12	12	12	-	-	15
			IPCA + 4.7% to 6.3%	101	101	101	-	-	118
	2012	2020	111% of CDI	1	1	1	-	-	1
			IPCA + 6% a 6.17%	20	20	20	-	-	25
	2011	2021	109.25% to 110.5% of CDI	6	6	6	-	-	7
	2012	2022	IPCA + 5.15% to 5.83%	2,307	2,307	1,317	-	990	2,655
			IGPM + 4.63%	20	20	20	-	-	22
			Total	**23,609**	**23,609**	**20,821**	**-**	**2,787**	**24,982**
Subordinated Euronotes - USD									
	2010	2020	6.2%	990	990	990	-	-	2,343
	2010	2021	5.8%	1,000	1,000	1,000	-	-	2,404
	2011	2021	5.75% a 6.2%	730	730	730	-	-	1,715
	2012	2021	6.2%	550	550	550	-	-	1,302
	2012	2022	5.5% a 5.65%	2,600	2,600	2,600	-	-	6,146
	2012	2023	5.1%	1,851	1,851	1,851	-	-	4,366
			Total USD	**7,721**	**7,721**	**7,721**	**-**	**-**	
			Total BRL						**18,276**
			Grand Total						**55,186**
			Subordinated Debt Reducer (Fin. Congl.)						(12,310)
			Subordinated Debt - Tier II (Fin. Congl.)						**41,611**
			Threshold Subordinated debt (Fin. Congl.)						37,450
			Subordinated debt - Tier II (Fin. Congl.)						37,450

[1] *The subordinated notes are redeemable from November 2011.*

Funds may be moved freely between the consolidated institutions, respecting the minimum capital requirements enforced by local regulatory bodies of foreign subsidiaries, as well as the minimum capital requirements for insurance companies as established by the SUSEP.

The National Council of Private Insurers (CNSP), following the international trend of strengthening the insurance market and in order to ensure the solvency of insurance companies, open private pension plan entities and capitalização companies, has been enhancing the regulatory capital requirement for authorizing the operation of these companies. In December 2006, it published CNSP Resolution No. 158 (amended by Circular No. 355 of the Superintendency of Private Insurers (SUSEP) from December 2007), which details the underwriting risk regulatory capital requirement for the many insurance lines. In January 2011, CNSP supplemented the capital requirement by including credit risk requirements for the supervised companies, through Resolution No. 228. In January 2013, the CNSP included capital requirements pension plans and *capitalização* operations, through Resolutions No. 280 and No. 284, respectively; additionally, the capital requirement for operational risk was included, as per CNSP Resolution No. 283, and the criteria for assessing the minimum capital required for underwriting, credit, operational and market risks, taking into consideration their correlations, was disclosed in Resolution No. 282.

Through CNSP Resolution No. 302, in effect since January 1st, 2014, the CNSP amended these resolutions and included the liquidity requirement for the assets accepted by the National Monetary Council (CMN) to cover the technical provisions in relation to the minimum capital required.

2.4 Risk-Weighted Asset (RWA)

According to CMN Resolution No. 4,193, for assessing the minimum and additional Common Equity Tier I requirement, the risk-weighted assets (RWA) can be found by adding the portions, as shown below:

$$RWA = \underbrace{RWA_{CPAD}}_{\text{Credit Risk}} + \underbrace{RWA_{CAM} + RWA_{JUR} + RWA_{COM} + RWA_{ACS}}_{\text{Market Risk}} + \underbrace{RWA_{OPAD}}_{\text{Operational Risk}}$$

- RWA_{CPAD} = portion relating to exposures to credit risk;
- RWA_{CAM} = portion relating the exposures in gold, foreign exchange rate and assets subject to foreign exchange rate variations;
- RWA_{JUR} = portion relating to exposures subjects to variations of interest rates, interest coupons and coupon rates and classified in the Trading Portfolio;
- RWA_{COM} = portion relating to exposures subjects to variations in commodity prices;
- RWA_{ACS} = portion relating to exposures subjects to variations in equities prices and classified in the Trading Portfolio;
- RWA_{OPAD} = portion relating to the calculation of operational risk capital requirements.

The portions mentioned above were calculated according to the procedures disclosed by BACEN, through Circulars and Circular Letters, and by CMN, through Resolutions.

The table below presents the consolidated evolution of RWA composition of Itaú Unibanco. Each of the portions mentioned above will be presented in detail in the topics below.

Composition of Risk-Weighted Asset *R$ million*

	Financial Conglomerate					
Risk exposures	**12/31/2013**		**9/30/2013**		**12/31/2012**	
Risk-Weighted Assets for Credit Risk (RWA_{CPAD})	694,039	91.9%	621,386	91.2%	599,670	90.6%
Risk-Weighted Assets for Market Risk (RWA_{MPAD})	24,555	3.3%	23,320	3.4%	27,516	4.2%
Risk-Weighted Assets for Operational Risk (RWA_{OPAD})	36,847	4.9%	36,847	5.4%	34,611	5.2%
Risk-Weighted Assets (RWA)	755,441	100%	681,553	100%	661,797	100%

Risk-Weighted Assets for Credit Risk (RWA_{CPAD})

The table below presents the credit risk-weighted (RWA_{CPAD}) separated by weighting factor and asset type:

Composition of Risk-Weighted Assets for Credit Risk (RWA_{CPAD})

R$ million

	Financial Conglomerate		
	12/31/2013	9/30/2013	12/31/2012
Risk exposures			
Exposure weighted by credit risk (RWA_{CPAD})	**694,039**	**621,386**	**599,670**
a) Per Weighting Factor (FPR):			
FPR at 2% [1]	75		
FPR at 20%	6,761	5,610	2,565
FPR at 35%	6,517	6,283	1,852
FPR at 50%	27,464	33,900	36,255
FPR at 75%	123,554	219,911	115,351
FPR at 85% [2]	122,191	-	-
FPR at 100%	307,217	309,544	410,467
FPR at 150%	29,580	20,796	16,944
FPR at 250% [3]	24,275	-	-
FPR at 300%	22,660	19,869	11,912
FPR at 1250% [4]	13,061	-	-
Derivatives – Future potential gain and Variation of the counterparty credit quality Minimum Required Regulatory Capital	10,682	5,473	4,324
b) Por Tipo:			
Securities	39,341	35,081	34,532
Loan operations - Retail	100,213	92,551	90,653
Loan operations - Non-retail	240,166	220,429	222,649
Joint liabilities - Retail	192	286	334
Joint liabilities - Non-retail	62,867	56,144	59,594
Loan commitments - Retail	23,096	24,915	24,364
Loan commitments - non-retail	26,579	16,429	19,529
Other exposures	201,584	175,552	148,015

[1] According to Central Bank Circular 3,644, a 2% FPR factor should be applied to exposures to be paid in settlement camera or providers of clearing and settlement system, interposing the camera or service as a central counterparty;

[2] According to Central Bank Circular 3,679, a 85% FPR factor should be applied to corporate exposures that represents more than one hundred million reais on a consolidated Brazilian basis (Credit Information System of the Brazilian Central Bank (SCR)) and less than 10% of the referential equity of the institution;

[3] According to Central Bank Circular 3,679, a 250% FPR factor should be applied to exposures on assets not deducted of the referential equity – DTAs and investments;

[4] According to Central Bank Circular 3,644, a 1,250% FPR factor should be applied to transactions relating to the acquisition of shares of subordinated class (FDIC), investment fund and securitization securities from October, 2013 and participation in guarantee funds in settlement camera or providers of clearing and settlement systems.

BACEN Circulars Nos. 3,644, 3,652, 3,679 and 3,696 establish new criteria for calculating the capital portion related to credit risk.

Risk-Weighted Assets for Market Risk (RWA_{MPAD})

The amount of RWA_{MPAD} is obtained by adding the terms: RWA_{CAM}, RWA_{JUR}, RWA_{COM}, RWA_{ACS}.

For monitoring Banking Portfolio, in line with regulatory requirements, 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 of each risk factor and the P&L is calculated considering the worst outcome for each. For the treatment of the credit portfolio, which is subject to relevant volumes of early terminations, Itaú Unibanco sets the original maturities of the operations with quarterly revisions of their parameters, based on historical data observed, which anticipates the cash flows terms originally contracted. For products without defined maturities, such as cash deposits and savings accounts, balances are distributed in time generating exposure to changes in interest rates, according to internally approved methodologies.

The evolution of the regulatory portions which together compose the required regulatory capital for market risk is presented below:

Composition of Risk-Weighted Assets for Market Risk (RWA_{MPAD})

R$ million

	Financial Conglomerate		
	12/31/2013	9/30/2013	12/31/2012
Risk-Weighted Assets for Market Risk (RWA_{MPAD})	**24,555**	**23,320**	**27,516**
Trades subject to interest rate variation (RWA_{JUR})	**22,107**	**19,571**	**25,097**
Fixed income interest rate denominated in reais (RWA_{JUR1})	4,859	3,361	6,097
Foreign exchange linked interest rate (RWAJUR2)	8,212	9,146	10,522
Price index linked interest rate (RWA_{JUR3})	8,789	6,500	6,090
Interest rate linked interest rate ($RWA_{JUR\ 4}$)	247	564	2,387
Operations subject to commodity price variation (RWA_{COM})	**2,086**	**1,775**	**821**
Operations subject to stock price variation (RWA_{ACS})	**362**	**1,974**	**1,598**
Operations subject to the risk of exposures in gold, foreign currency and foreign exchange rate variations (RWA_{CAM}) (1)	-	-	-
Referential equity calculated for covering the interest rate risk of trades of the banking book (RBAN)	**1,217**	**2,527**	**4,680**

(1) Operations subject to the risk of exposures in gold, foreign currency and foreign exchange rate variations were less than 2% of the Referential Equity, therefore the capital allocation is equal to 0, according to the Circular No. 3,641.

Risk-Weighted Assets for Operational Risk (RWA_{OPAD})

Circular No. 3,640, in effect since October 2013, establishes new criteria for determining the portion of risk-weighted assets related to the capital required for operational risk (RWA_{OPAD}) by means of a standardized approach. In January 2014, Circular No. 3,675 became effective, supplementing the above mentioned Circular and introducing some amendments, such as: the possibility of requiring the use of a basic indicator in the case of correction or improvement of the Standardized Approach and revocation of the provision that required capital allocation for the CONEF portion.

Additionally, the calculation, on a semiannual basis, of the exposure of RWA_{OPAD} relating to June 30th and December 31st was maintained.

The Operational RWA is presented below:

Composition of Risk-Weighted Assets for Operational Risk (RWA_{OPAD})

R$ million

	Financial Conglomerate		
	12/31/2013	9/30/2013	12/31/2012
Risk-Weighted Assets for Operational Risk (RWA_{OPAD})	**36,847**	**36,847**	**34,611**
Retail	6,403	6,403	5,890
Commercial	11,455	11,455	9,392
Corporate finance	1,036	1,036	934
Negotiation and sales	11,665	11,665	12,577
Payments and settlements	2,724	2,724	2,541
Financial agent services	1,595	1,595	1,345
Asset management	1,926	1,926	1,814
Retail brokerage	44	45	118
Business plans	-	-	-

2.5 Capital Adequacy

Itaú Unibanco, through the ICAAP, assesses the adequacy of capital to face the incurred risks. The capital is composed by regulatory capital for credit, market and operational risks and by the necessary capital to face other risks evaluated during the ICAAP.

In order to ensure the robustness of Itaú Unibanco and the availability of capital to support business growth, Itaú Unibanco maintains PR levels above the minimum levels, according to the Basel ratio, Common Equity Tier I, Additional Tier I and Tier II.

On December 31st, 2013, the PR reached R$ 125,144 million, an increase of R$ 2,206 million compared to September 30th, 2013, mainly due to the increase on Common Equity Tier I. When compared to the same period of the previous year, the PR increased R$ 5,198 million.

Composition of Referential Equity (PR)

R$ million

	Financial Conglomerate		
	12/31/2013	9/30/2013	12/31/2012
Tier I	**87,409**	**85,659**	**79,711**
Common Equity Tier I	87,409	-	-
Additional Capital	-	-	-
Tier II	**37,734**	**37,771**	**40,654**
Exclusions: Funding Instruments Issued by Financial Institutions	-	(492)	(420)
Referential Equity (PR)	**125,144**	**122,938**	**119,945**
Required Referential Equity	**83,099**	**74,971**	**72,798**
Excess capital in relation to Required Referential Equity	**42,045**	**47,967**	**47,148**

The economic-financial consolidated is no longer basis for determining capital requirements, as per Resolutions No. 4.193, No. 4.278 and No. 4.281. Considering the current rules, the PR for the economic-financial consolidated would have been 118,512 million and the PRE R$ 81,693 million.

The BIS ratio was 16.6%, a decrease of 1.4 percentage points compared to September 30th Basel ratio. This decrease is mainly explained by the use of BACEN's new rules, which established the new criteria for assessing the capital requirements, in effect since October 2013.

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

Basel and Fixed Asset Ratios

R$ million

	Financial Conglomerate		
	12/31/2013	9/30/2013	12/31/2012
Basel ratio	**16.6%**	**18.0%**	**18.1%**
Tier I	11.6%	12.5%	12.0%
Common Equity Tier I	11.6%	-	-
Additional Capital	0.0%	-	-
Tier II	5.0%	5.5%	6.1%
Fixed assets ratio	**49.9%**	**49.8%**	**43.4%**
Excess Capital in Relation to Fixed Assets	104	219	7,910

Until December 31st, 2013, should the foreign currency risk exposure (RWA_{CAM}) be equal to or lower than 2% of the Referential Equity, the RWA_{CAM} would be set to zero. If the new rule were in effect, the ratios from the table above would have been reduced by approximately 0.2%.

3 Credit Risk

3.1 Framework and Treatment

The credit risk is the possibility of losses associated with: failure by a borrower, issuer or counterparty to fulfill their respective financial obligations as defined in the contracts; value loss of credit agreements resulting from deterioration of the borrower's issuer's or counterparty's credit rating; reduction of profits or income; benefits granted upon subsequent renegotiations; or debt recovery costs.

Itaú Unibanco's credit risk management and control structure establishes operational limits, risk mitigation mechanisms and processes, and instruments to measure, monitor and control risk that can quantify the credit risk inherent to all products, portfolio concentrations and the impacts of potential changes in the economic environment. The Bank's portfolio, policies and strategies are continuously monitored so as to ensure compliance with the rules and laws in effect in each country.

Itaú Unibanco's credit risk management is the primary responsibility of all Business Areas and is aimed at maintaining the quality of the credit portfolio at levels that are consistent with the institution's risk appetite, for each market segment in which it operates. The Business Areas have to:

- Follow up and closely monitor the portfolios under their responsibility.
- Grant credit in accordance to the authority levels, market conditions, macroeconomic prospects, changes in markets and products and the effects of sector and geographic concentrations.
- Manage credit risk adopting actions that provide sustainability to its business.

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

Itaú Unibanco has a structured process to maintain a diversified portfolio, which is considered appropriate by the institution. The concentrations are monitored continuously for economic sectors, largest debtors, and geographic region, allowing preventive measures to be taken to avoid the violation of the established limits.

The credit risk management governance 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 for the institution, reviewing control practices and policies and approving the actions at the respective authority levels. The risk communication and reporting process, including disclosure of institutional policies on credit risk management, are responsibility of this structure.

The credit risk control is carried out by an independent executive area segregated from the business units, as required by the current regulation. Among others, the mains responsibilities of the credit risk control area are to:

- Monitor and control the performance of the credit portfolios in view of the limits approved by senior management.
- Conduct the centralized control of the credit risk segregated from the business units.
- Manage the process of preparation, review and approval of institutional policies of credit risk, meeting the regulatory guidelines.
- Monitor the adequacy of the level of the Referential Equity with respect to the credit risk assumed.
- Assess the credit risk of the operations at the authority levels appointed by the credit commissions.

The policies and products' evaluation process enables the Itaú Unibanco to identify potential risks in order to ensure that credit decisions make sense from an economic and risk perspective.

Itaú Unibanco's centralized process for approving credit policies and validating models ensures the synchronization of credit actions.

The credit rating process for wholesale transactions is based on information such as the economic and financial condition of the counterparty, its cash-generating capabilities, the economic group to which it belongs, the current and prospective situation of the economic sector in which it operates. Credit proposals are analyzed on a case-by-case basis through the approval governance.

With respect to retail transactions (individuals and small and medium companies), ratings are assigned based on statistical application and behavior score models. Decisions are met based on continuously monitored scoring models. Extraordinarily, an individual analysis of specific cases may be performed, in which case credit approval follows the applicable authority levels.

Itaú Unibanco rates government securities and other debt instruments according to their credit quality with the purpose of managing the exposures.

Itaú Unibanco strictly controls credit exposure to clients and counterparties, acting on occasional limit breaches. In this sense, contractual covenants may be used, such as the right to demand early payment or require of additional collateral.

Itaú Unibanco counts on a specific structure and processes aimed at ensuring that the country risk is managed and controlled, including: (i) country risk governance; (ii) country ratings; (iii) credit limits for countries; (iv) limits monitoring; and (v) actions for limit breaches.

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

The guidelines of the institutional credit risk management policy can be accessed at http://www.itau-unibanco.com/ri , under Corporate Governance, Regulations and Policies, Public Access Report – Credit Risk.

3.2 Credit Portfolio Analysis

Evolution of the Credit Portfolio

The information presented in the following tables allow the analysis of the credit portfolio, and its behavior, from different view stands: operations with credit granting characteristics segregated by FPR, country, geographic region and economic sector, concentration of the credit portfolio on major debtors and to the amount of the overdue transactions.

Operations with Credit Granting Characteristics per FPR, Country, and Geographic Region

Operations with Credit Granting Characteristics[1]

R$ million

	Financial Conglomerate					
	Exposure			Average Exposure for the Quarter		
	9/30/2013	6/30/2013	9/30/2012	3rd quarter of 2013	2nd quarter of 2013	3rd quarter of 2012
Per FPR						
FPR at 0%	1	1		1	1	
FPR at 20%	1,464	993	1,301	1,228	2,090	1,141
FPR at 35%	18,619	17,951	5,291	18,285	17,376	5,170
FPR at 50%	13,138	8,104	16,619	10,621	7,748	16,885
FPR at 75%	164,671	280,368	153,802	222,520	278,386	156,490
FPR at 85% [3]	125,234			125,234		
FPR at 100%	176,241	162,148	266,822	169,194	158,733	259,741
FPR at 150%	19,717	13,864	11,296	16,790	13,222	10,775
FPR de 300%	1,342	874	717	1,108	847	595
Total	**520,426**	**484,302**	**455,847**	**564,981**	**478,403**	**450,797**
Per Country						
Brazil	394,741	403,421	386,901	399,081	399,348	383,294
Abroad [2]	125,685	80,881	68,946	103,283	79,056	67,503
Total	**520,426**	**484,302**	**455,847**	**502,364**	**478,403**	**450,797**
Per Geographic Region						
Southeastern	298,384	307,800	291,064	303,092	304,190	287,648
Southern	37,622	37,936	38,278	37,779	37,843	38,395
Northen	7,848	7,353	7,492	7,601	7,332	7,483
Nordeastern	33,104	32,071	31,644	32,588	31,776	31,274
Central-western	17,783	18,261	18,423	18,022	18,206	18,494
Total	**394,741**	**403,421**	**386,901**	**399,081**	**399,348**	**383,294**

[1] *The amount includes endorsements, sureties and committed loans, net of allowance for loan losses.*

[2] *Abroad: Bahamas, Grand Cayman, United States, Argentina, UK, Luxembourg, Mexico, Switzerland, Chile, Uruguay and Paraguay.*

[3] *According to Central Bank Circular 3,679, a 85% FPR factor should be applied to corporate exposures that represents more than one hundred million reais on a consolidated Brazilian basis (Credit Information System of the Brazilian Central Bank (SCR)) and less than 10% of the referential equity of the institution.*

Operations with Credit Granting Characteristics by Economic Sector

The composition of loan portfolios by economic sector is presented below:

Operations with Credit Granting Characteristics [1]: Exposure

R$ million

	Financial Conglomerate					
	12/31/2013		9/30/2013		9/30/2012	
Economic Sectors	Total	%	Total	%	Total	%
PUBLIC SECTOR	**5,882**	**1.1%**	**5,274**	**1%**	**2,873**	**0.6%**
ENERGY	52	0.0%	99	0%	236	0.1%
PETROCHEMICAL AND CHEMICAL	5,476	1.1%	4,893	1%	2,422	0.5%
SUNDRY [2]	354	0.1%	282	0%	216	0.0%
PRIVATE SECTOR	**514,544**	**98.9%**	**479,028**	**99%**	**452,974**	**99.4%**
COMPANIES	**314,355**	**60.4%**	**291,256**	**60%**	**271,674**	**59.6%**
SUGAR AND ALCOHOL	10,769	2.1%	9,897	2%	8,954	2.0%
AGRIBUSINESS AND FERTILIZERS	14,187	2.7%	14,499	3%	12,913	2.8%
FOOD AND BEVERAGE	19,051	3.7%	17,889	4%	15,836	3.5%
BANKS AND OTHER FINANCIAL INSTITUTIONS	8,902	1.7%	7,838	2%	7,832	1.7%
CAPITAL ASSETS	10,527	2.0%	9,838	2%	8,982	2.0%
PULP AND PAPER	3,707	0.7%	3,427	1%	3,397	0.7%
ELECTRONIC AND IT	7,379	1.4%	7,060	1%	7,061	1.5%
PACKAGING	2,595	0.5%	2,626	1%	2,204	0.5%
ENERGY AND SEWAGE	13,419	2.6%	12,456	3%	12,173	2.7%
EDUCATION	1,784	0.3%	1,688	0%	1,473	0.3%
PHARMACEUTICALS AND COSMETICS	6,880	1.3%	6,955	1%	6,625	1.5%
REAL ESTATE AGENTS	26,512	5.1%	22,089	5%	20,645	4.5%
ENTERTAINMENT AND TOURISM	3,904	0.8%	3,771	1%	3,650	0.8%
WOOD AND FURNITURE	3,227	0.6%	3,145	1%	2,995	0.7%
CONSTRUCTION MATERIAL	6,679	1.3%	6,558	1%	6,026	1.3%
STEEL AND METALLURGY	12,891	2.5%	11,849	2%	11,110	2.4%
MEDIA	2,053	0.4%	1,889	0%	1,354	0.3%
MINING	5,814	1.1%	4,743	1%	4,559	1.0%
INFRASTRUCTURE WORK	6,961	1.3%	6,706	1%	6,408	1.4%
OIL AND GAS	5,159	1.0%	4,933	1%	4,684	1.0%
PETROCHEMICAL AND CHEMICAL	8,824	1.7%	8,291	2%	7,376	1.6%
HEALTH CARE	2,359	0.5%	2,294	0%	2,448	0.5%
INSURANCE AND REINSURANCE AND PENSION PLANS	67	0.0%	69	0%	80	0.0%
TELECOMMUNICATIONS	8,700	1.7%	7,985	2%	5,912	1.3%
CLOTHING AND FOOTWEAR	5,863	1.1%	5,556	1%	5,618	1.2%
TRADING	2,133	0.4%	2,151	0%	2,184	0.5%
TRANSPORTATION	20,668	4.0%	19,969	4%	18,561	4.1%
DOMESTIC APPLIANCES	4,463	0.9%	3,743	1%	3,882	0.9%
VEHICLES AND AUTOPARTS	21,224	4.1%	20,006	4%	18,512	4.1%
THIRD SECTOR	132	0.0%	134	0%	146	0.0%
PUBLISHING AND PRINTING	1,749	0.3%	1,673	0%	1,775	0.4%
COMMERCE - SUNDRY	17,565	3.4%	16,627	3%	16,681	3.7%
INDUSTRY - SUNDRY	6,761	1.3%	3,898	1%	5,124	1.1%
SUNDRY SERVICES	22,105	4.2%	19,104	4%	18,959	4.2%
SUNDRY	19,347	3.7%	19,900	4%	15,538	3.4%
INDIVIDUALS	**200,189**	**38.5%**	**187,772**	**39%**	**181,300**	**39.8%**
CREDIT CARDS	51,081	9.8%	41,331	9%	40,952	9.0%
REAL ESTATE FINANCING	30,043	5.8%	27,533	6%	22,367	4.9%
CONSUMER LOANS/OVERDRAFT	80,863	15.5%	79,133	16%	70,552	15.5%
VEHICLES	38,203	7.3%	39,776	8%	47,428	10.4%
GRAND TOTAL	**520,426**	**100.0%**	**484,302**	**100%**	**455,847**	**100.0%**

[1] *The amount includes endorsements, sureties and committed loans, net of allowance for loan losses.*

Operations with Credit Granting Characteristics [1]: Average Exposure for the Quarter *R$ million*

	Financial Conglomerate					
	4rd quarter of 2013		3rd quarter of 2013		4th quarter of 2012	
Economic Sectors	Total	%	Total	%	Total	%
PUBLIC SECTOR	**5,578**	**1.1%**	**5,392**	**1.1%**	**2,896**	**0.6%**
ENERGY	76	0.0%	166	0.0%	260	0.1%
PETROCHEMICAL AND CHEMICAL	5,184	1.0%	4,940	1.0%	2,414	0.5%
SUNDRY [2]	318	0.1%	286	0.1%	223	0.0%
PRIVATE SECTOR	**496,786**	**98.9%**	**473,011**	**98.9%**	**447,901**	**99.4%**
COMPANIES	**302,806**	**60.3%**	**287,357**	**60.1%**	**268,460**	**59.6%**
SUGAR AND ALCOHOL	10,333	2.1%	9,973	2.1%	8,812	2.0%
AGRIBUSINESS AND FERTILIZERS	14,343	2.9%	14,003	2.9%	12,561	2.8%
FOOD AND BEVERAGE	18,470	3.7%	17,717	3.7%	15,346	3.4%
BANKS AND OTHER FINANCIAL INSTITUTIONS	8,370	1.7%	7,492	1.6%	8,242	1.8%
CAPITAL ASSETS	10,183	2.0%	9,449	2.0%	8,950	2.0%
PULP AND PAPER	3,567	0.7%	3,379	0.7%	3,388	0.8%
ELECTRONIC AND IT	7,219	1.4%	7,123	1.5%	6,931	1.5%
PACKAGING	2,610	0.5%	2,524	0.5%	2,052	0.5%
ENERGY AND SEWAGE	12,937	2.6%	12,321	2.6%	11,597	2.6%
EDUCATION	1,736	0.3%	1,630	0.3%	1,472	0.3%
PHARMACEUTICALS AND COSMETICS	6,917	1.4%	6,934	1.4%	6,463	1.4%
REAL ESTATE AGENTS	24,301	4.8%	21,830	4.6%	20,410	4.5%
ENTERTAINMENT AND TOURISM	3,838	0.8%	3,746	0.8%	3,603	0.8%
WOOD AND FURNITURE	3,186	0.6%	3,161	0.7%	3,037	0.7%
CONSTRUCTION MATERIAL	6,618	1.3%	6,490	1.4%	5,842	1.3%
STEEL AND METALLURGY	12,370	2.5%	11,783	2.5%	10,865	2.4%
MEDIA	1,971	0.4%	1,918	0.4%	1,388	0.3%
MINING	5,278	1.1%	4,859	1.0%	4,619	1.0%
INFRASTRUCTURE WORK	6,834	1.4%	6,756	1.4%	6,577	1.5%
OIL AND GAS	5,046	1.0%	4,833	1.0%	4,430	1.0%
PETROCHEMICAL AND CHEMICAL	8,557	1.7%	8,094	1.7%	7,396	1.6%
HEALTH CARE	2,326	0.5%	2,331	0.5%	2,390	0.5%
INSURANCE AND REINSURANCE AND PENSION PLANS	68	0.0%	77	0.0%	81	0.0%
TELECOMMUNICATIONS	8,342	1.7%	7,783	1.6%	5,905	1.3%
CLOTHING AND FOOTWEAR	5,709	1.1%	5,628	1.2%	5,480	1.2%
TRADING	2,142	0.4%	2,036	0.4%	2,293	0.5%
TRANSPORTATION	20,318	4.0%	19,793	4.1%	18,173	4.0%
DOMESTIC APPLIANCES	4,103	0.8%	3,718	0.8%	3,714	0.8%
VEHICLES AND AUTOPARTS	20,615	4.1%	19,804	4.1%	18,592	4.1%
THIRD SECTOR	133	0.0%	131	0.0%	152	0.0%
PUBLISHING AND PRINTING	1,711	0.3%	1,680	0.4%	1,757	0.4%
COMMERCE - SUNDRY	17,096	3.4%	16,402	3.4%	16,610	3.7%
INDUSTRY - SUNDRY	5,330	1.1%	4,424	0.9%	5,489	1.2%
SUNDRY SERVICES	20,604	4.1%	19,402	4.1%	18,749	4.2%
SUNDRY	19,624	3.9%	18,134	3.8%	15,097	3.3%
INDIVIDUALS	**193,981**	**38.6%**	**185,654**	**38.8%**	**179,441**	**39.8%**
CREDIT CARDS	46,206	9.2%	40,374	8.4%	38,935	8.6%
REAL ESTATE FINANCING	28,788	5.7%	26,574	5.6%	21,621	4.8%
CONSUMER LOANS/OVERDRAFT	79,998	15.9%	77,834	16.3%	70,523	15.6%
VEHICLES	38,989	7.8%	40,872	8.5%	48,362	10.7%
GRAND TOTAL	**502,364**	**100.0%**	**478,403**	**100.0%**	**450,797**	**100.0%**

[1] *The amount includes endorsements, sureties and committed loans, net of allowance for loan losses.*

Credit Concentration on the Major Debtors

Concentration of Major Clients with Credit Granting Characteristics

R$ million

Loan, Lease and Other Credit Operations [1]	Exposure	% of portfolio	Exposure	% of portfolio	Exposure	% of portfolio
	12/31/2013		9/30/2013		12/31/2012	
Largest debtor	5,591	1.2%	4,958	1.1%	4,573	1.1%
10 largest debtors	31,345	6.5%	29,132	6.4%	27,130	6.4%
20 largest debtors	48,917	10.1%	45,247	9.9%	43,344	10.2%
50 largest debtors	79,470	16.4%	73,874	16.2%	67,372	15.8%
100 largest debtors	107,433	22.2%	100,741	22.1%	89,405	21.0%

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

Concentration of Major Clients with Credit Granting Characteristics

R$ million

Loan, Lease and Other Credit Operations and Securities of Companies and Financial Institutions[1]	Exposure	% of portfolio	Exposure	% of portfolio	Exposure	% of portfolio
	12/31/2013		9/30/2013		12/31/2012	
Largest debtor	5,755	1.0%	5,160	1.0%	5,219	1.1%
10 largest debtors	40,753	7.4%	38,515	7.4%	37,368	7.7%
20 largest debtors	65,461	11.8%	60,618	11.7%	60,239	12.4%
50 largest debtors	106,902	19.3%	98,274	18.9%	95,629	19.6%
100 largest debtors	143,092	25.9%	132,316	25.5%	124,043	25.5%

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

Overdue Amounts

Overdue Amounts

R$ million

Overdue	Financial Conglomerate		
	12/31/2013	9/30/2013	12/31/2012
Between 1 and 14 days	7,782	8,177	10,755
Between 15 and 60 days	9,214	8,893	10,095
Between 61 and 90 days	2,944	2,847	3,268
Between 91 and 180 days	5,878	5,882	7,108
Over 180 days	9,226	9,234	10,719

Allowance for Loan Losses

In order to be hedged 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 and the volume of the regulatory provision is determined.

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

Changes in Allowance for Loan Losses in the Quarter

R$ million

	Financial Conglomerate		
	4th quarter of 2013	3rd quarter of 2013	4th quarter of 2012
Opening Balance	**(25,597)**	**(26,261)**	**(28,188)**
Change Effect in Consolidation Criteria	-	-	-
Balance arising from the aquisition of full control of FAI	-	-	-
Net Increase for the Period	(4,241)	(4,510)	(6,119)
Required by Resolution No. 2,682/99	(4,400)	(4,510)	(6,133)
Additional	159	-	14
Write-Off	3,521	5,174	6,257
Closing Balance	**(26,317)**	**(25,597)**	**(28,050)**
Regulatory Allowance	(21,098)	(20,539)	(22,992)
Additional Allowance	(5,219)	(5,058)	(5,058)

Composition of the Result of Allowance for Loan Losses

R$ million

	Financial Conglomerate		
	4th quarter of 2013	3rd quarter of 2013	4th quarter of 2012
Expenses for Allowance for Loan Losses	(4,242)	(4,510)	(6,119)
Income from Recovery of Credits Written off as Loss	1,499	1,429	1,154
Result of Allowance for Loan Losses	**(2,743)**	**(3,081)**	**(4,965)**

Mitigating Instruments

As a way to control credit risk, Itaú Unibanco has an institutional 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 the guarantees 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.

To be considered as risk reduction instrument, the guarantees need to comply with requirements and determinations of the regulations that govern the guarantees, whether internal or external.

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 credit risk of its portfolios of 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.

The credit limits are continuously monitored and changed according to client behavior. Thus, the potential loss values represent a fraction of the amount available.

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 BACEN Circulars Nos. 3,644, 3,652, 3,679 and 3,696 to calculate regulatory capital.

Operations of Securitization

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

The CRIs are backed by real estate loans and predominantly are not subordinated. The quotas of FIDCs are usually senior and backed by receivables, such as trade notes, promissory notes. The CRAs are backed by receivables linked to agribusiness.

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.

Operations with Securities Arising from Securitization Process

R$ million

	Financial Conglomerate		
Security	**12/31/2013**	**9/30/2013**	**12/31/2012**
CRI	12,282	8,820	8,581
FIDC	188	220	257
CRA	135	156	-

Sale or Transfer of Financial Assets

Credit assignments (transfers of receivables) carried out through December 2011 were recorded in accordance with current regulation together with income recognition at the time of the assignment, regardless of the risks and benefits being retained or not.

In compliance with CMN Resolution No. 3,809, the amount of operations assigned with joint obligation, at December 31st, 2013 where the entity significantly retained the related risks and benefits is R$ 298 million, composed of real estate financing of R$ 282 million and farming financing of R$ 16 million.

Since beginning January 2012, as provided for by CMN Resolution No. 3,533 and supplementary regulation, accounting records take into consideration the retention or non-retention of risks and benefits on sale or transfers of financial assets.

Sale or Transfer of Financial Assets

R$ million

	Financial Conglomerate		
	12/31/2013	9/30/2013	12/31/2012
Balance of exposures assigned with significant withholding of risks and benefits	298	322	415
Flow of exposures assigned in the quarter with significant transfer of risks and benefits	275	124	272

Itaú Unibanco carried out operations for the sale or transfer of financial assets in which the credit risks of the financial assets transferred were retained by means of the acquisition of Securitized Real Estate Loans. As a result, these credits remained recorded as loan operations and the amount recorded in assets on December 31, 2013 totals R$ 4,233 million and is composed of Real Estate Loan operations with market value of R$ 4,223 million, and the amount recorded in liabilities in the Other Liabilities – Sundry account totals R$ 4,233 million and market value of R$ 4,223 million.

The transactions of sale or transfer of financial assets in which the risks and rewards are not retained amounted to R$ 935 million with P&L impact of R$ 3 million, net of the Allowance for Loan Losses.

Acquisitions of credit portfolios with a risk retention transferor, held from January 2012 until December 31, 2013, totaling R$ 5,585 million. The total amount of acquired portfolios totaled R$ 5,908 million on December 31, 2013.

In 2013, there was an increase of R$ 2,745 million in the total amount of the credit portfolio acquired with the retention of the assignor's risk.

Counterparty Credit Risk

Itaú Unibanco sees the credit risk of the counterparty as a possibility of noncompliance, by a given counterparty, with obligations related to the settlement of transactions that involve the trading of financial assets with a bilateral risk, including those related to the settlement of derivative financial instruments. Additionally, Itaú Unibanco includes the risk of deterioration of the credit quality of the counterparty in its risk assessment.

Itaú Unibanco's structure for managing, monitoring and controlling the counterparty credit risk arising from derivative financial instruments and other complex financial instruments, as well as from operations with variable indexes, is inserted in the credit risk management structure.

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

Notional of Contracts Subject to Counterparty Credit Risk

R$ million

	Financial Conglomerate		
	12/31/2013	9/30/2013	12/31/2012
Notional Amount			
Liquidated in Liquidation Systems (Stock Exchange) [1]	1,632,658	1,266,311	2,583,423
Not Liquidated in Liquidation Systems (Over-The-Counter)	606,573	688,129	411,990
With Guarantees	167,679	214,215	172,980
Without Guarantees	438,894	473,914	239,010

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

In December 2012, changes were made to the recording of derivatives and guarantees in contracts subject to counterparty credit risk. The table below presents the exposures of the contracts of Itaú Unibanco that are subject to counterparty credit risk:

Exposure of Contracts Subject to Counterparty Credit Risk

R$ million

	Financial Conglomerate		
	12/31/2013	9/30/2013	12/31/2012
Total Gross Positive Amount	**187,227**	**232,253**	**199,898**
Liquidated in Liquidation Systems (Stock Exchange) [1]	3,738	3,925	4,363
Not Liquidated in Liquidation Systems (Over-The-Counter)	183,489	228,328	195,535
Derivatives	9,250	8,379	8,584
Unsettled transactions [2]	47,525	55,022	33,321
Repurchase agreements [2]	126,714	164,927	153,630
(-) Amounts related to Netting Arrangements	(4,556)	(3,324)	(1,423)
(-) Guarantees	(131,819)	(170,708)	(159,976)
(=) Net Global Exposure to the Counterparty Credit Risk	**50,852**	**61,545**	**38,499**

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

[2] The total gross positive amount corresponds to the notional amount

Credit Derivatives

Itaú Unibanco buys and sells credit protection mainly related to securities of the Brazilian government and securities of Brazilian listed companies in order to meet the needs of its customers. When Itaú Unibanco sells contracts for credit protection, the exposure for a given reference entity may be partially or totally offset by a credit protection purchase contract of another counterparty for the same reference entity or similar entity. The credit derivatives for which Itaú Unibanco is protection seller are credit default swap (CDS) and total return swap (TRS).

CDS is credit derivative in which, upon a credit event related to the reference entity pursuant to the terms of the contract, the protection buyer is entitled to receive, from the protection seller, the amount equivalent to the difference between the face value of the CDS contract and the fair value of the liability on the date the contract was settled, also known as the recovered amount. The protection buyer does not need to hold the debt instrument of the reference entity for it to receive the amounts due pursuant to the CDS contract terms when a credit event occurs.

TRS is a transaction in which a party swaps the total return of a reference entity or of a basket of assets for regular cash flows, usually interest and a guarantee against capital loss. In a TRS contract, the parties do not transfer the ownership of the assets.

The maximum potential loss that may be incurred with the credit derivative is based on the notional amount of the derivative. Itaú Unibanco believes that, based on its historical experience, the maximum potential loss does not represent the actual level of loss. It happens because, when a loss event occurs, the amount of maximum potential loss should be reduced from the notional amount by the recoverable amount.

The credit derivatives sold are not covered by guarantees, and during this period, Itaú Unibanco has not incurred any loss related to credit derivative contracts.

In December 2012, changes were made to the recording of derivatives. The following table presents the notional amount of purchased credit derivatives whose underlying amounts are identical to those for which Itaú Unibanco operates as seller of the credit protection.

Notional Amount of Credit Derivatives Held in Portfolio

R$ million

	Financial Conglomerate		
	12/31/2013	9/30/2013	12/31/2012
Risk Transferred	**11,578**	**6,031**	**1,066**
Credit Default Swap (CDS)	11,578	6,031	1,066
Total Return Swap (TRS)			-
Risk Received	**(13,722)**	**(9,683)**	**(5,132)**
Credit Default Swap (CDS)	(12,249)	(8,280)	(3,847)
Total Return Swap (TRS)	(1,473)	(1,403)	(1,285)
Total	**(2,144)**	**(3,652)**	**(4,066)**
Referential Equity (PR) of Risk Received	**(604)**	**(200)**	**(86)**

During the period, there was no occurrence of credit event related to those set forth in agreements.

4 Market Risk

4.1 Framework and Treatment

Market risk is the possibility of losses resulting from fluctuations in the market values of positions held by a financial institution, usually caused by variations in foreign exchange rates, interest rates, price indexes, equity and commodity prices, along with various indexes on these risk factors.

At Itaú Unibanco, market risk management is the process by which management monitors and controls risk of variations in the financial instruments, due to market movements, while aiming to optimize the risk-return ratio through an adequate limits structure, effective risk management models and related management tools.

Itaú Unibanco's institutional policies and general market risk management framework are in line with the principles of CMN Resolution No. 3,464, and subsequent amendments. These principles guide the institution's approach to market risk control and management across all business units and legal entities of Itaú Unibanco.

The document that details the market risk control institutional policy is on the Investor Relations website www.itau-unibanco.com/ri, in the route: Corporate Governance, Rules and Policies, Public Access Report - Market Risk.

Itaú Unibanco's market risk management strategy is aimed at balancing corporate business goals, taking into account, among other things:

- Political, economic and market conditions;
- The market risk profile of the portfolio; and
- Expertise within the group to support operations in specific markets.

Itaú Unibanco's market risk management framework is subject to the governance and hierarchy of committees, with specific limits assigned to different levels and classes of market risk. These range from aggregated risk indicators at the portfolio level, to more granular limits at the individual desk level. They help ensure the effectiveness and coverage of control. Limits are calibrated based on projections of future balance sheets, performance expectations, the group risk appetite and stockholders' equity available, and the risk profile of each organizational entity (defined in terms of risk measurement as used within the risk management process). Limits are monitored on a daily basis, with compliance reported to and discussed at the relevant board and management Committees. In addition, the daily risk reports, used by the business and control areas are distributed to relevant executive officers.

The structure of limits and alerts follows Board of Directors guidelines. These are approved by the CSRisc, after endorsement by the CSTI. The limits structure is reviewed at least annually.

Key principles underlying market risk control are as follows:

- All market risk taken should be in line with Itaú Unibanco's risk-return objectives;
- Through disciplined dialogue, senior management is to be kept informed of the overall market risk profile and its evolution through time;
- There should be transparency as to how the business works to optimize results;
- The market risk control structure should provide early warning mechanisms to facilitate effective risk management, without obstructing the business objectives, and
- Concentration risks should be avoided.

The market risk management and control process is subject to periodic reviews, to ensure it reflects alignment with best market practices, and continuous improvement over time.

Market risk control is managed by a group that is independent from the different business units and is responsible for performing the daily activities of risk measurement, evaluation, analysis and reporting to relevant individuals and units, according to established governance requirements. They also monitor actions taken to readjust positions and/or levels of risk, when necessary. For this purpose, there is a structured process of communication and information flow, which provides information to the Superior Committees and ensures compliance with the requirements of Brazilian and foreign regulatory agencies.

Itaú Unibanco hedges transactions with clients and proprietary positions, including its foreign investments, in order to mitigate risk arising from fluctuations in relevant market risk factors and to prevent positions from breaching relevant

limits. Derivatives are commonly used for these hedging activities. When these transactions are classified as hedges for accounting purposes, specific supporting documentation is provided, including ongoing follow-up of hedge effectiveness (retrospective and prospective) and other changes in the accounting process. The accounting and managerial hedging procedures are governed by the institutional polices of Itaú Unibanco.

Hedge accounting considerations are presented in detail in explanatory notes of the Financial Statements.

The market risk framework categorizes transactions as part of either the Banking Book or the Trading Book, in accordance with general criteria established by the Basel Capital Accord and subsequent amendments.

The Trading Book is composed of all trades with financial and commodity instruments (including derivatives) undertaken with the intention of trading them.

The Banking Book is predominantly characterized by portfolios originated from the banking business and operations related to the management of the institution's balance sheet. As a general rule, this book's portfolios are intended to be either held to maturity, or sold in the medium and in the long run.

Market risk exposures inherent in various financial instruments, including derivatives, are composed of various risk factors. A risk factor refers to a market parameter whose variation impacts a position's valuation. The main risk factors measured by Itaú Unibanco are as follow:

- Interest rates: the risk of losses from transactions subject to interest rates variation;
- Other foreign interest rates: the risk of losses from transactions subject to foreign interest rates variations;
- FX Rates: the risk of losses from positions subject to foreign exchange rate variation (e.g., foreign currency positions);
- Brazilian inflation indexes: the risk of losses from transactions subject to the variations in inflation-linked;
- Equities and Commodities: the risk of losses from transactions subject to equity or commodities price variations.

Market risk arising from interest rates in the Banking and Trading Books is managed by a combination of processes, including marking-to-market positions, calculating sensitivity to interest rate variations, Value at Risk (VaR) modeling and performing stress tests across the portfolio. These processes are consistent with Itaú Unibanco's institutional policies.

To evaluate positions in shares held in either the Trading or the Banking Books, Itaú Unibanco uses both VaR modelling, stress tests, as presented in the paragraph below. The regulations of BACEN applicable to share trading described in item 2 - Capital of this publication are observed for the Trading Book.

Market risk is analyzed based on the following key metrics:

- Value at Risk: a statistical metric that quantifies the maximum potential economic loss expected in normal market conditions, considering a defined holding period and confidence level;
- Losses in Stress Scenarios (Stress Testing): a simulation technique to evaluate the impact, in the assets, liabilities and derivatives of the portfolio, of various risk factors in extreme market situations (based on prospective scenarios);
- Stop Loss Alerts: metrics that trigger a management review of positions, if the accumulated losses in a given period reach specified levels;
- Concentration: cumulative exposure of certain asset or risk factor calculated at market value ("MtM - Mark to Market"); and
- Stressed VaR: statistical metric derived from VaR calculation, aimed at capturing the biggest risk in simulations of the current portfolio, taking into consideration the observable returns in historical scenarios.

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

- Gap Analysis: accumulated exposure of the cash flows by risk factor, which are marked-to-market and positioned by settlement dates;
- Sensitivity (DV01 – Delta Variation Risk): impact on the market value of cash flows when a 1 basis point change is applied to current interest rates or on the index rates;
- Sensitivities to Various Risk Factors (Greeks): partial derivatives of a portfolio of options on the prices of the underlying assets, implied volatilities, interest rates and time.

4.2 Portfolio Analysis

Evolution of the Trading Portfolio

The evolution of the Trading Portfolio, broken down by major risk factors, is tabulated below:

Total Value of Trading Position *R$ million*

	12/31/2013		9/30/2013		12/31/2012	
	Long	Short	Long	Short	Long	Short
Interest Rates	280,445	(274,340)	269,630	(237,324)	281,215	(263,714)
Foreign Exchange Rates	151,083	(150,627)	151,632	(149,539)	139,484	(136,356)
Equities	14,206	(13,577)	11,111	(10,190)	6,935	(6,149)
Commodities	36	(22)	469	(82)	7	(183)

Evolution of the Derivatives Portfolio

The main purpose of the derivative positions in the Banking Portfolio is to manage risks in this portfolio and in the corresponding risk factors. The evolution of Itaú Unibanco'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 for both Trading and Banking Portfolios:

Derivatives: Trades in Brazil - Trading + Banking - With Central Counterparty *R$ million*

	12/31/2013		9/30/2013		12/31/2012	
	Long	Short	Long	Short	Long	Short
Interest Rates	427,803	(563,818)	361,836	(453,904)	654,111	(770,556)
Foreign Exchange Rates	70,277	(66,972)	46,969	(47,215)	31,271	(39,473)
Equities	979	(1,700)	1,942	(2,130)	1,274	(1,072)
Commodities	119	(111)	552	(490)	70	(180)

Derivatives: Trades in Brazil - Trading + Banking - Without Central Counterparty *R$ million*

	12/31/2013		9/30/2013		12/31/2012	
	Long	Short	Long	Short	Long	Short
Interest Rates	161,198	(191,664)	145,009	(165,467)	51,870	(61,608)
Foreign Exchange Rates	41,579	(55,139)	38,914	(49,245)	35,858	(41,375)
Equities	9,169	(9,549)	3,070	(3,369)	2,334	(2,447)
Commodities	86	(61)	260	(65)	231	(288)

Derivatives: Foreign Trades - Trading + Banking - With Central Counterparty

R$ million

	12/31/2013		9/30/2013		12/31/2012	
	Long	Short	Long	Short	Long	Short
Interest Rates	534	(296)	537	(294)	2,712	(1,647)
Foreign Exchange Rates	121,685	(120,730)	93,672	(93,030)	74,395	(72,859)
Equities	907	(392)	352	(162)	-	-
Commodities	51	(70)	259	(129)	47	(30)

Derivatives: Foreign Trades - Trading + Banking - Without Central Counterparty

R$ million

	12/31/2013		9/30/2013		12/31/2012	
	Long	Short	Long	Short	Long	Short
Interest Rates	117,186	(122,839)	120,408	(126,270)	44,924	(46,346)
Foreign Exchange Rates	149,304	(147,900)	143,965	(141,819)	213,200	(215,470)
Equities	193	(158)	369	(118)	398	(233)
Commodities	-	-	-	-	2	(29)

VaR – Consolidated Itaú Unibanco

The internal VaR model used by Itaú Unibanco for consolidated risk 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 both the Banking and Trading Book of Itaú Unibanco, and its subsidiaries abroad, showing where there are higher concentrations of market risk (subsidiaries abroad: *Banco Itau BBA International PLC, Banco Itaú Argentina S.A., Banco Itaú Chile S.A., Banco Itaú Uruguay S.A., Banco Itaú Paraguay S.A. and Itaú BBA Colombia S.A. - Corporación Financiera*).

VaR - Itaú Unibanco Holding [1]

R$ million

VaR per Risk Factor Group		12/31/2013	9/30/2013	12/31/2012
Itaú Unibanco	Brazilian Interest rates	69.1	129.8	348.7
	Other Foreign Interest rates	45.2	28.0	11.4
	FX rates	10.4	32.5	8.8
	Brazilian Inflation Indexes	65.7	86.5	51.2
	Equities and Commodities	20.4	21.2	16.8
Itaú Unibanco Foreign Units	*Banco Itaú BBA International*	1.9	2.0	1.1
	Banco Itaú Argentina	5.7	4.2	5.5
	Banco Itaú Chile	2.1	4.8	4.4
	Banco Itaú Uruguai	1.7	3.3	2.0
	Banco Itaú Paraguai	0.9	1.0	1.0
	Banco Itaú BBA Colômbia	0.2	0.9	-
Diversification effect		(113.0)	(103.3)	(77.1)
Global VaR		**110.4**	**210.9**	**373.7**
Maximum Global VaR of the Quarter		**225.9**	**287.0**	**452.7**
Average Global VaR of the Quarter		**152.8**	**226.8**	**275.9**
Minimum Global VaR of the Quarter		**97.9**	**169.2**	**189.0**

[1] *Adjusted for tax purposes*

Itaú Unibanco maintained its conservative and diversification management style, having operated within low limits in relation to its capital through the period. The observed decrease in Global VaR, compared to the previous quarter, is due to position changes and a decrease in the volatility observed for some of Itaú Unibanco's risk factors.

VaR - Trading Book

The Institutional Treasury Unit segregates its risk management of the Banking and Trading Books.

Itaú Unibanco recently enhanced its internal VaR methodology used for the Trading Book, migrating from the Parametric approach to a "Historical Simulation" approach. It uses 4 years of historical market data, performs full revaluation of all positions, considers both one-day and ten-day holding periods, and reports risk at various confidence levels, including the usual 99% confidence level. This methodology is well known to improve risk measurement for nonlinear products, and to more effectively capture both basis risk and fat tail events. The model calculates VaR on both an unweighted "simple returns" basis, and on a "volatility weighted" basis. We are extending the use of this model beyond the Trading Book to include all other relevant portfolios that give rise to market risks.

The Trading Book takes positions aiming to optimize risk-weighted results. It seeks the best domestic and foreign market opportunities, within pre-established limits, and strives to create a well-diversified risk exposure.

VaR - Itaú Unibanco - Trading Portfolio [1] *R$ millon*

VaR per Risk Factor Group	12/31/2013	9/30/2013
Brazilian Interest rates	20.1	31.1
Other Foreign Interest rates	21.7	11.3
FX rates	9.4	24.8
Brazilian Inflation Indexes	21.4	32.4
Equities and Commodities	13.7	13.8
Diversification effect	(56.0)	(64.6)
Global VaR	**30.3**	**48.7**
Maximum Global VaR of the Quarter	**71.7**	**52.0**
Average Global VaR of the Quarter	**45.3**	**35.0**
Minimum Global VaR of the Quarter	**25.6**	**18.0**

[1] *Adjusted for tax purposes*

[1] *VaR Historical Simulation approach.*

VaR - Foreign Units

Itaú Unibanco's foreign units are financial institutions based in different countries that operate with local treasuries, with market risk exposures monitored by local risk control groups. These local treasury and risk control groups are subject to oversight by the equivalent structures of Itaú Unibanco at Group level. The foreign units are Banco Itaú BBA International, Banco Itaú Argentina, Banco Itaú Chile, Banco Itaú Uruguai, Banco Itaú Paraguai and Itaú BBA Colombia S.A. Corporación Financiera.

The consolidated exposure of market risk of the foreign units in the fourth quarter, when compared to the previous one, reflected a decrease as can be seen in the table below.

The Total Consolidated VaR of all the foreign units represents less than 1% of Itaú Unibanco's net equity.

VaR - Itaú Unibanco Foreign Units [(1)] *R$ millon*

VaR per Risk Factor		12/31/2013	9/30/2013	12/31/2012
Banco Itaú BBA International	Euribor	0.7	1.1	0.4
	Libor	0.3	0.7	0.4
	FX rate	1.0	1.0	0.2
	Equities	0.0	0.0	0.1
	Others	0.2	0.2	0.5
	Diversification effect	(0.3)	(1.1)	(0.4)
	Global VaR IBBA International	1.9	2.0	1.1
Banco Itaú Argentina	Fixed income interest rate (Argentine peso)	5.3	3.1	3.8
	Inflation index linked interest rate	0.1	0.1	0.0
	Badlar	0.7	0.4	0.1
	FX + interest rate - Dollar	3.1	1.9	4.2
	FX + interest rate - Euro	0.1	0.2	0.4
	Diversification effect	(3.6)	(1.4)	(2.9)
	Global VaR *Itaú Argentina*	5.7	4.2	5.5
Banco Itaú Chile	Fixed income interest rate (Chilean peso)	0.7	1.8	1.4
	Inflation index linked interest rate	1.9	3.6	4.1
	FX + interest rate - Dollar	0.9	0.6	0.7
	FX rate - Other currencies	0.0	0.0	0.0
	Diversification effect	(1.4)	(1.2)	(1.8)
	Global VaR *Itaú Chile*	2.1	4.8	4.4
Banco Itaú Uruguai	Fixed income interest rate (Uruguayan peso)	0.5	1.5	0.7
	Inflation index linked interest rate	0.9	1.5	0.4
	Dollar linked interest rate	2.0	2.5	1.8
	FX rate	0.4	0.1	0.1
	Diversification effect	(2.2)	(2.3)	(1.0)
	Global VaR *Itaú Uruguai*	1.7	3.3	2.0
Banco Itaú Paraguai	Fixed income interest rate (guarani)	0.8	0.6	1.0
	Dollar linked interest rate	0.5	0.7	0.1
	FX rate	0.0	0.0	0.0
	Diversification effect	(0.4)	(0.4)	(0.1)
	Global VaR *Itaú Paraguai*	0.9	1.0	1.0
Banco Itaú BBA Colômbia	Fixed Income Interest Rate	0.2	1.5	-
	Dollar linked interest rate	0.0	0.0	-
	FX rate	0.1	0.2	-
	Diversification effect	(0.1)	(0.7)	-
	Global VaR *Itaú BBA Colômbia*	0.2	0.9	-
	Total VaR	12.5	16.2	14.1

[(1)] *Adjusted for tax purposes*

Sensitivity Analysis (Trading and Banking Portfolios)

As required by CVM Regulatory Instruction No. 475, Itaú Unibanco conducts sensitivity analysis against exceptional scenarios for market risk factors considered relevant. The highest resulting losses, by risk factor, in each of the scenarios, were calculated, net of tax effects, providing a view of the Itaú Unibanco's exposure under these exceptional scenarios.

The sensitivity analyses of Trading and Banking Books presented here are based on a static assessment of the portfolio exposure. Therefore, they do not consider the dynamic response capability of management (both treasury and risk control areas) to initiate mitigating measures and minimize the possibility of significant losses. In addition, the P&L presented does not reflect accounting P&L - since the analysis is intended to assess risk exposure based on the fair value of positions, even when the positions are accounted for on an accrual basis.

Sensitivity of Trading Portfolio [1]

R$ thousand

	Exposures	12/31/2013		
Risk Factors	**Risk of change in:**	**Scenario I**	**Scenario II**	**Scenario III**
Interest Rate	Fixed Income Interest Rates in reais	(387)	(9,632)	(19,187)
Foreign Exchange Linked	Foreign Exchange Linked Interest Rates	122	(3,079)	(6,188)
Foreign Exchange Rates	Prices of Foreign Currencies	3,994	(99,844)	(199,688)
Price Index Linked	Price Indexes Linked Interest Rates	(758)	(18,600)	(36,489)
TR	TR Linked Interest Rates	5	(119)	(238)
Equities	Prices of Equities	3,597	(89,920)	(179,839)
	Total without correlation	**6,573**	**(221,193)**	**(441,628)**
	Total with correlation	**6,336**	**(213,234)**	**(425,738)**

[1] *Amounts net of tax effects.*

Sensitivity of Trading and Banking Portfolios [1]

R$ thousand

	Exposures	12/31/2013		
Risk Factors	**Risk of change in:**	**Scenario I**	**Scenario II**	**Scenario III**
Interest Rate	Fixed Income Interest Rates in reais	(2,107)	(52,469)	(104,507)
Foreign Exchange Linked	Foreign Exchange Linked Interest Rates	375	(9,336)	(18,593)
Foreign Exchange Rates	Prices of Foreign Currencies	3,183	(79,568)	(159,136)
Price Index Linked	Price Indexes Linked Interest Rates	(4,237)	(103,960)	(203,958)
TR	TR Linked Interest Rates	257	(6,428)	(12,885)
Equities	Prices of Equities	2,867	(71,679)	(143,358)
	Total without correlation	**337**	**(323,439)**	**(642,438)**
	Total with correlation	**325**	**(311,801)**	**(619,322)**

[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 interest rates and associated indexes, and 1 percentage point to currencies and equities prices;
- Scenario II: Shocks of 25 basis points to interest rates and associated indexes, and 25 percentage points to currencies and equities prices, increasing and decreasing the closing market data, considering the highest loss per risk factor; and
- Scenario III: Shocks of 50 basis points to interest rates and associated indexes, 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 by the use of backtesting techniques that compare hypothetic daily results with the estimated daily VaR. The number of exceptions 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 range of 250 business days (ending on December 31st, 2013). The backtesting analysis presented below takes into consideration the ranges 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 ranges are divided into:

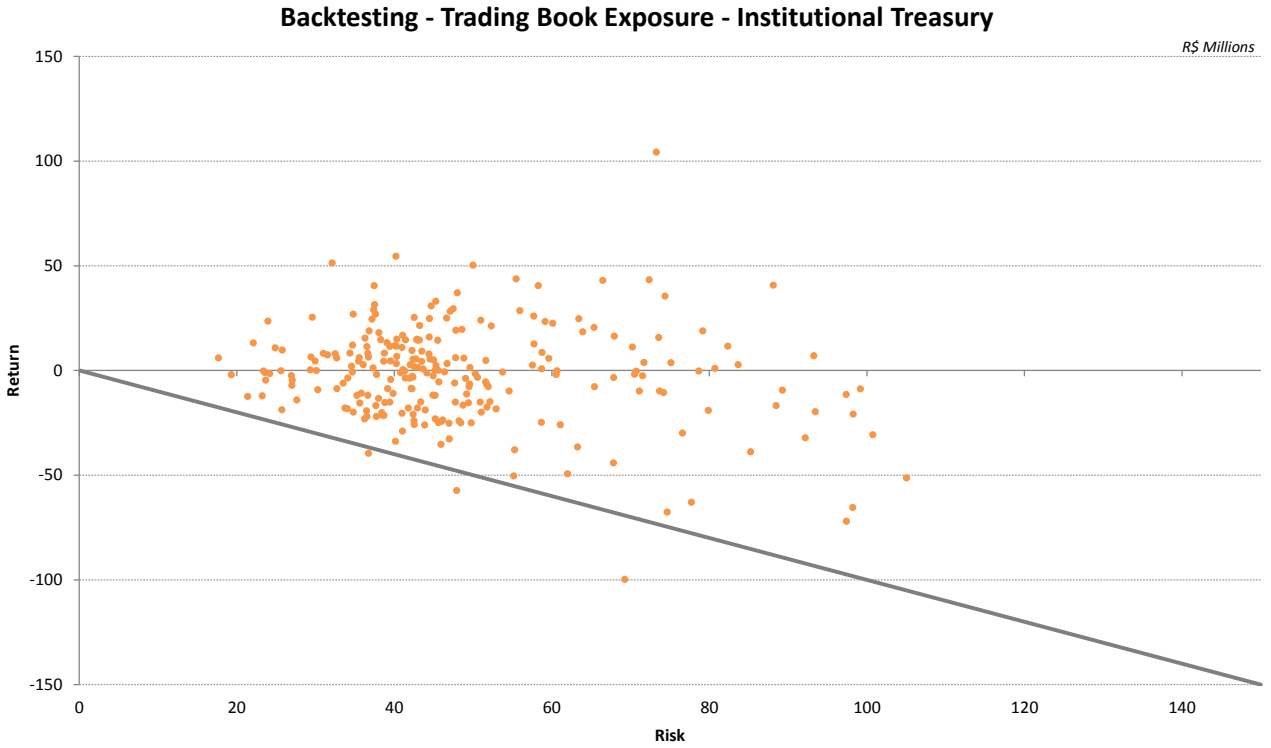
- Green (0 to 4 exceptions): corresponds to backtesting results that do not suggest any problems with the quality or accuracy of the models adopted;
- Yellow (5 to 9 exceptions): refers to an intermediate range group, which indicates the need to pay attention and/or monitoring and may indicate the need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

The exposure graph below illustrates the reliability of risk measures generated from the models used by Itaú Unibanco in the Institutional Treasury Trading Book (International Units are not included in these graph, given the immateriality of amounts involved).

The graph shows the adequacy level of the market risk models used by Itaú Unibanco, presenting the risk (absolute value) x return for the period considered.

Since the diagonal line represents the threshold where risk equals results, all the dots below this line indicate exceptions to the estimated risk.

For the exposure of the Institutional Treasury Trading Book, the hypothetic losses exceeded the VaR estimated by the model on 3 days in the period.



5 Operational Risk

5.1 Framework and Treatment

For Itaú Unibanco the operational risk is defined as the possibility of losses arising from failure, deficiency or inadequacy of internal process, people or systems or from external events that affect the achievement of strategic, tactical or operational objectives. It includes legal risk associated 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.

Itaú Unibanco internally classifies its risk events in:

- 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 Itaú Unibanco;
- Interruption of Itaú Unibanco's activities;
- Failures in information technology systems;
- Failures in the performance, compliance with deadlines and management of activities at Itaú Unibanco.

In line with the principles of the CMN Resolution No. 3,380 and BACEN Circular No. 3,647, Itaú Unibanco has an operational risk management structure and institutional policy, which are annually approved by the Board of Directors and are applicable to its local and foreign companies and subsidiaries.

Operational risk management is the process composed of operational risk management and control activities whose is to support the institution in decision making processes, always searching for the proper identification and assessment of risks, the creation of value for stockholders and the protection of Itaú Unibanco's assets and image.

Itaú Unibanco has a governance process that is structured through forums and committees that are subordinated to the CSAGRO and CSRisc, which, in turn, report to the Board of Directors, and by well-defined roles and responsibilities in order to reinforce the segregation of the business and management and control activities, ensuring independence between the areas and, consequently, well-balanced decisions with respect to risks. This is reflected in the risk management process carried out on a decentralized basis under the responsibility of the business areas and by a centralized control carried out by the internal control, compliance and operational risk department by means of methodologies, training and certification of the control environment on an independent basis and providing tools for monitoring them.

The management structure seeks to identify, assess, mitigate, monitor and report the operational risk for the purpose of ensuring the quality of the control environment in accordance with the internal guidelines and regulation in effect.

The executive areas managers use corporate methodologies that are built and made available by the internal control, compliance and operational risk department. Among the methodologies and tools used are the self-evaluation and the map of the organization's prioritized risks, the approval of processes and products, the monitoring of key risk indicators that and the database of operational losses. Therefore, Itaú Unibanco's operational risk framework ensures a conceptual exclusive basis for the management of processes, systems, projects and new products and services.

Within the governance of the management process, there are specific operational risk, internal control and compliance forums where the consolidated reports on risk monitoring, controls, action plans and operational losses are regularly presented to the business area executives.

It is worth noting that the dissemination of the risk and control culture to the employees by means of training is an important pillar of the operational risk agenda, aimed at providing a better understanding of the matter and playing a relevant role in its mitigation.

A summarized version of the institutional operational risk management policy can be found on the website www.itau-unibanco.com.br/ri under Corporate Governance, Regulations and Policies, Public Access Report – Operational Risk.

5.2 Crisis Management and Business Continuity

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.

It is composed of procedures for relocating and/ or recovering operations in response to a variety of interruption levels, and can be divided into two key elements:

- Crisis Management: centralized communication and response processes to manage business interruption events and 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 daily operations, as well as the media channels in which Itaú Unibanco is mentioned. 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): document with procedures and information, developed, consolidated and maintained available for use during possible incidents, allowing the resumption of critical activities in acceptable terms and conditions. For the quick and safe resumption of the operations, 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 primary data center, ensuring the continuity of the processing of critical systems 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. There is approximately 2,000 contingency dedicated seats that are fully equipped to meet the needs of the business areas in emergency situations.
  - Emergency Plan: procedures aimed at minimizing the effects of emergency situations that may impact Itaú Unibanco's facilities, with a preemptive focus;
  - Processes Contingency Plan: alternatives (Plan B) to carry out the critical processes identified in the business areas.

In order to keep the continuity solutions aligned with the business requirements (processes, minimum resources, legal requirements, etc) the Program applies the following tools to understand the organization:

- Business Impact Analysis (BIA): evaluates the criticality and resumption requirement of the processes that support the delivery of products and services. Through this analysis the businesses' resumption priorities are defined.
- Risk Assessment (RA): evaluates the processes and the effectiveness of the controls in place to mitigate the inherent risks of interruption as well as to implement actions to the gaps eventually identified in the business;
- Threats and Vulnerabilities Analysis (AVA): identification of threats to the locations where Itaú Unibanco buildings are located. The control's efficiency is evaluated against the potential threats in order to eventually identify vulnerabilities so that controls are adjusted or implemented to enhance the resilience level of the firm's critical facilities.

6 Liquidity Risk

6.1 Framework and Treatment

Liquidity risk is defined as the likelihood to the institution not being able to effectively honor its expected and unexpected obligations, current and future, including those from guarantees commitment, not affecting its daily operations and not incurring significant losses.

The liquidity control risk is carried out by an independent group of the business units and is responsible for determining the composition of the reserve, proposing assumptions for the performance of cash flows in different timeframes, proposing liquidity risk limits in accordance with the group risk appetite, communicating any mismatches, considering liquidity risk on an individual basis in the countries where Itaú Unibanco operates, simulating the behavior of cash flows in stress conditions, assessing and reporting in advance the risks inherent to new products and operations and reporting on the information required by the regulatory agencies. All activities are subject to assessment by the independent validation, internal controls and audit departments.

The liquidity risk measurement has to comprise all financial trades of the companies of Itaú Unibanco, as well as possible contingent and unexpected exposures, such as derived from settlement services, provision of sureties and guarantees, credit lines contracted and not used.

The liquidity policies of management and associated limits are established based on prospective scenarios, reviewed periodically and based on definitions from senior management.

The document that details the liquidity risk control institutional policy is on the Investor Relations website www.itau-unibanco.com/ri, in the route: Corporate Governance, Rules and Policies, Public Access Report - Liquidity Risk.

Pursuant to the requirements of CMN Resolutions No. 4,090 and BACEN Circular No. 3,393, 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 crisis situations;
- Reports and charts to enable monitoring risk positions;
- Assessment 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.

6.2 Primary sources of funding

Itaú Unibanco has different sources of funding, with the main source arising from retail segment.

Primary sources of funding *R$ million*

	Financial Conglomerate								
	12/31/2013			09/30/2013			12/31/2012		
Funding from clients	**0 a 30 days**	**Total**	**%**	**0 a 30 days**	**Total**	**%**	**0 a 30 days**	**Total**	**%**
Deposits	170,691	282,591		162,301	260,045		135,776	246,784	
Demand deposits	50,497	50,497	10%	44,994	44,994	9%	37,315	37,315	7%
Savings deposits	106,166	106,166	20%	98,227	98,227	19%	83,451	83,451	17%
Time deposits	12,260	117,734	22%	17,229	109,144	21%	12,368	118,252	24%
Other	1,768	8,194	2%	1,851	7,680	2%	2,642	7,766	2%
Funds from acceptances and issuance of securit	2,916	56,977	11%	3,193	69,782	14%	3,863	71,572	14%
Funds from own issue [2]	2,977	133,053	25%	2,022	123,604	24%	3,394	129,428	26%
Subordinated debt	146	56,564	11%	252	55,270	11%	797	55,179	11%
Total	**176,730**	**529,185**		**167,768**	**508,701**		**143,830**	**502,963**	

[1] *Includes mortgage notes, real estate credit bills, agribusiness and financial credit bills recorded in interbank and institutional market debts and liabilities for issue of debentures and foreign borrowings and securities recorded in funds from institutional markets.*

7 Other Risks

Insurance Risk

Products that compose portfolios of insurance companies of Itau Unibanco are related to segments of life, large risk, extended warranty, pension plans and *capitalização*. Its portfolio is risk-based underwriting, market, counterparty credit, and longevity, among others.

Itaú Unibanco understands, in insurance environment, that:

- Underwriting Risk is the possibility of losses arising from insurance products, pension plans and *capitalização* that go against company's expectations, directly or indirectly associated with technical and actuarial bases used for calculating premiums, contributions and technical provisions.
- Market Risk is the possibility of losses resulting from fluctuations in market values of assets and liabilities that comprise technical actuarial reserves.
- Counterparty Credit Risk is the possibility of failure to comply a certain counterpart, from liability for settlement of transactions involving trading of financial assets or reinsurance.
- Longevity Risks: possibility of pension plans must pay benefits and annuities for longer than originally planned.
- Liquidity risk in insurance operations is the possibility of the institution not be able to honor efficient and timely its obligations to policyholders and beneficiaries of pension fund due to lack of liquidity of the assets comprising the actuarial technical reserves.

In line with good national and international practices and to ensure that risks arising from insurance products, pension plans and *capitalização* are properly identified, measured, evaluated, reported and approved in relevant forums, Itau Unibanco has a risk management framework, whose guidelines are established in institutional normative, approved by the Board, applicable to companies and subsidiaries at risk from insurance products, pension plans and *capitalização*, in Brazil and abroad.

Risk management process for insurance products, pension plans and *capitalização* is based on responsibilities defined and distributed between control and business areas, ensuring independence between them.

Main attributions of insurance risk control area are:

- Set governance and establish institutional normative for risk management for insurance products, pension plans and *capitalização*;
- Support insurers develop new products from the risk standpoint;
- Support insurers develop and implement price and risk models;
- Control, monitor and report, on a consolidated basis, risks arising from the insurance products, pension plans and *capitalização* to the proper authorities.

As part of the risk management process, there is a structure of collegiate organs which, according to level of risk involved, decisions may be taken in higher commissions, thus ensuring compliance with several regulatory and internal requirements, as well as balanced decisions relative to risks.

Social and Environmental Risk

In business management, Itaú Unibanco constantly and continuously takes into consideration the potential of the risk of losses due to exposure to social and environmental events arising, directly or indirectly, from the performance of its activities. These events may arise from (i) direct operation of Itaú Unibanco which, on its own, has an impact on the environment or human health, or (ii) actions of borrowers, issuers and counterparties that, somehow, generate losses to the institution.

The management of Itaú Unibanco's social and environmental risks follows the stages of assessment, management, organizational training and participation of stakeholders. This management permeates all management levels of Itaú Unibanco and is structured by specific governance and policies that formalize the mechanisms for the management of the social and environmental risk, in addition to strengthening the sustainability agenda in the decision-making process of the institution.

In the governance of social and environmental issues, Itaú Unibanco has the Social and Environmental Risk Committee, which is a permanent non-statutory body whose purpose is to establish the governance for social and environmental risk issues for the entire institution.

In order to avoid losses for the institution and also meet the interests of stakeholders, Itaú Unibanco has been developing many internal processes aimed at the management, control and mitigation of events, which may lead to the occurrence of the social and environmental risk. These include, for example, the incorporation of the social and environmental variable in the processes of credit assignment, contracting of suppliers, insurance underwriting and acquisition of real estate properties for own use, which is formalized by means of own social and environmental risk policies. The structuring of Itaú Unibanco's sustainability map is also worth noting.

Reputational Risk

Itaú Unibanco defines reputational risk as the risk arising from internal practices, risk events and external factors that may generate a negative perception of the institution among clients, counterparties, stockholders, investors, supervisors, commercial partners, among others, resulting in impacts on the value of the brand and financial losses, in addition to adversely affecting Itaú Unibanco's capability to maintain the existing commercial relations, start new businesses and continue to have access to financing sources.

Since the reputational risk directly or indirectly permeates all operations and processes of the institution, Itaú Unibanco's governance is structured in a way to ensure that potential reputational risks are identified, analyzed and managed still in the initial phases of its operations and the analysis of new products.

For the purpose of avoiding negative impacts on the perception of Itaú Unibanco's image by the many stakeholders, the treatment given to reputational risk is structured by means of many processes and internal initiatives, which, in turn, are supported by internal policies, and their main purpose is to provide mechanisms for the monitoring, management, control and mitigation of the main reputational risks to which the institution is, or might be, exposed. Among them are:

- Crisis management process and business continuity;
- Processes and guidelines of the governmental and institutional relations;
- Corporate communication process;
- Brand management process;
- Ombudsmanship initiatives and excellence in service.

Model Risk

The model risk is defined as the risk that arises from the models used by Itaú Unibanco not reflecting, on a consistent basis, the relationships of variables of interest, creating results that systematically differ from those observed. This is a potential risk, particularly due to problems during its development or implementation, the use of contexts that differ from those in the model or database or systems inconsistencies.

Itaú Unibanco manages the model risk to which it is exposed during the entire lifecycle of a model under development, implementation, validation and use. The model risk control at the institution includes: (i) certification of the quality of the database used; (ii) application of a list of essential steps to be taken during the development; (iii) conservatism in judgmental models, use of external benchmarks; (iv) approval of results generated in implementation; (v) independent technical validation; (vi) assessments of the impact in the use; (vii) monitoring of performance; and (viii) independent approval of the use policies.

Regulatory Risk

The regulatory risk is considered at Itaú Unibanco as the risk arising from legislative actions, changes in taxes, judicial decisions or regulatory interventions that impact financial market conditions and/or the competitive capabilities of Itaú Unibanco. The regulatory risk is managed through a structured process aimed at identifying changes in the regulatory environment, analyzing their impacts on the departments of the institution and monitoring the implementation of actions directed at adherence to the regulatory requirements.

Itaú Unibanco has a structured and consistent flow for addressing rules, covering the stages of recognition, distribution, monitoring and compliance, and all of these processes are established in internal policies. The structure and flow for addressing the regulatory risk are composed of: (i) monitoring of legislative bills; (ii) recognition of new rules for determining action plans; (iii) monitoring of action plans via compliance reports.

8 Enterprise Risk Management and Alignment of Incentives

In accordance with the scope and complexity of its operations, Itaú Unibanco established processes for effectively identifying, assessing, monitoring and controlling risks, besides adequately allocating the capital to segments. In addition, Itaú Unibanco established processes, which enables the Executives and Board of Directors to hold a global view about the institution´s risk exposures, as well as a prospective view about the adequacy of its capital, besides promoting the alignment of incentives. We describe some of these processes below:

Integrated monitoring of risks and capital adequacy

Itaú Unibanco has an integrated structure to monitor credit, market, operational, liquidity and reputational risks, as well as the capital adequacy in current and prospective views. This structure combines complementary risk measurement types, aiming at getting an overall view of the exposures incurred by the institution. The monitoring is regularly followed-up and discussed at the executive levels and the Board of Directors, thus being used as an important risk management oversight tool of Itaú Unibanco.

Stress Test

The stress test performed by Itaú Unibanco is aimed at evaluating the solvency of the institution in extreme stress situations, as well as identifying areas that are more susceptible to stress impact that may undergo risk mitigation. It is based on stressed projections of macroeconomic and credit variables, with the purpose of analyzing the added effect on income, capital and liquidity of the institution, consistent with the financial industry's standards. The test is performed on the main bank portfolios, simulating the impact on each business area through the calculation of stressed financial statements, under different scenarios approved by the Board of Directors, considering a horizon of two to three years.

The test results are reported to the top management and the Board of Directors supporting strategic decisions.

Risk-adjusted Compensation

The Compensation guidelines of Itaú Unibanco are aimed at attracting, retaining and compensating on merit its collaborators, encouraging prudent risk exposure levels in short-, medium- and long-term strategies, in line with the interests of its shareholders, regulatory authorities and the organization's culture. The governance structure of compensation and incentive to the prudent risk taking has been consolidating in line with the best international compensation and governance practices. The Compensation Committee, in accordance with the CMN Resolution nº 3,921 and reporting to the Board of Directors is responsible for setting out the guidelines on models of compensation to collaborators and the policy on compensation of management members of the Conglomerate companies.

Compensation in Itaú Unibanco takes into account the strategy of the institution, the general and specific legislation that should be adopted for each business or region of operation, and the adequate risk management over time. The variable compensation considers the current and potential risks, giving incentive to the achievement of sustainable results and discouraging decisions that involve excess risks. The calculation of the aggregate and individual amounts considers, among others, long-term sustainable financial bases, adjustments to future payments in view of assumed risks the results of the institution and/or of the area, when applicable, and the ratio between performance and risks incurred.

In accordance with the CMN Resolution No. 3,921, a portion of the variable compensation of statutory officers is paid in stocks (at least 50%) and a percentage is deferred for three years (at least 40% of variable compensation). The deferred and unpaid portions must be reversed in case the institution has an unsatisfactory performance and the business unit has a negative performance.

Reflecting its concern with sustainable performance, Itaú Unibanco implements specific variable compensation practices for collaborators which roles and responsibilities have material impact on the risk of the bank, although they are not subject to the requirements of CMN Resolution No. 3,921. For such collaborators, mechanisms are provided for making adjustments to bonus arising from compliance, risk as well as deferral events.

9 Glossary of Acronyms

A

- Anbima - *Associação Brasileira das Entidades dos Mercados Financeiro e de Capitais* (Brazilian Association of Financial and Capital Market Entities)
- AVA - *Avaliação de Vulnerabilidades e Ameaças* (Threats and Vulnerabilities Analysis)
- ARS - Argentine Peso

B

- BACEN - *Banco Central do Brasil* (Central Bank of Brazil)
- BCBA - *Bolsa de Comercio de Buenos Aires* (Buenos Aires Stock Exchange)
- BCE - European Central Bank
- BIA - Business Impact Analysis
- *BM&FBOVESPA - Bolsa de Valores, Mercadorias e Futuros de São Paulo* (São Paulo Stock, Mercantile and Future Exchange)
- BRL - Brazilian Real

C

- CDB - *Certificado de Depósito Bancário* (Bank Deposit Certificate)
- CDI - *Certificado de Depósito Interfinanceiro* (Interbank Deposit Certificate)
- CDS - Credit Default Swap
- CER - *Coeficiente de Estabilización de Referencia* (Argentine inflation index linked interest rate)
- CLN - Credit Linked Note
- CLP - Chilean Peso
- CMN - *Conselho Monetário Nacional* (National Monetary Council)
- CNSP - *Conselho Nacional de Seguros Privados* (National Council of Private Insurance)
- Cons. Op. - Financial System Consolidated
- Conef - Economic-Financial Consolidated
- COPOM - Monetary Policy Committee
- CRI - *Certificados de Recebíveis Imobiliários* (Securitized Real Estate Loans)

D

- DAX - *Deutscher Aktien Index* (German Stock Index)
- DRL - *Demonstrativo de Risco de Liquidez* (Liquidity Risk Statements)
- DV01 - Delta Variation Risk
- DXY - Dolar Index Spot

E

- EAD - Exposure at Default
- EPR - *Exposição Ponderada pelo Risco de Crédito* (Exposure weighted by credit risk)

F

- FED – Federal Reserve System
- FIDC - *Fundos de Investimento em Direito Creditórios* (Credit Rights Investment Funds)
- FPRs - *Fatores de Ponderação de Riscos* (weighting factor)

G

- GDP - Gross Domestic Product

I

- Ibovespa - *Índice Bovespa* (Bovespa index)
- ICAAP - Internal capital adequacy assessment process
- IPCA - *Índice de Preço ao Consumidor Amplo* (Brazilian consumer index)
- IPI - *Imposto sobre Produtos Industrializados* (Tax on Industrialized Products)
- IT - Information Technology

J

- *JCP - Juros sobre Capital Próprio* (Interest on capital)

L

- LGD - Loss Given Default

N

- NYSE - New York Stock Exchange

P

- PACS - Regulatory portion required to cover the risk of transactions subject to variations in stock prices and classified in the Trading Portfolio
- PCAM - Regulatory portion required to cover the risk of exposures in gold, foreign currency and transactions subject to foreign exchange rate variations
- PCN - *Planos de Continuidade de Negócios* (Business Continuity Plans)
- PCOM - Regulatory portion required to cover the risk of transactions subject to variations in commodity prices
- PD - Probability of default
- PEPR - Regulatory portion required to cover credit risk and other asset exposures not included in the other portions
- PGBL - *Plano Gerador de Benefício Livre* (Brazilian private pension plan)
- PRE - *Patrimônio de Referência Exigido* (Required Referential Equity)
- PR - *Patrimônio de Referência* (Referential Equity)
- PYG - Paraguayan Guarani

R

- RA - Risk Assessment
- RBAN - Referential equity calculated for covering the interest rate risk of trades of the Banking Portfolio
- RWA_{ACS} – portion relating to exposures subjects to variations in equities prices and classified in the Trading Portfolio;

- RWA_{CAM} – portion relating the exposures in gold, foreign exchange rate and assets subject to foreign exchange rate variations;
- RWA_{COM} – portion relating to exposures subjects to variations in commodity prices
- RWA_{CPAD} – portion relating to exposures to credit risk
- RWA_{JUR} - portion relating to exposures subjects to variations of interest rates, interest coupons and coupon rates and classified in the Trading Portfolio
- RWA_{JUR1} – – portion relating to exposures subject to variation in the foreign exchange linked interest rate
- RWA_{JUR2} - portion relating to exposures subject to variation in the foreign exchange linked interest rate
- RWA_{JUR3} - portion relating to exposures subject to variation in the price index linked interest rates
- RWA_{JUR4} - portion relating exposures subject to variation in the interest rate index linked interest rate
- RWA_{MPAD} - sum of the terms: RWA_{CAM}, RWA_{JUR}, RWA_{COM}, RWA_{ACS}
- RWA_{OPAD} - portion relating to the calculation of operational risk capital requirements

S

- Selic - *Sistema Especial de Liquidação e de Custódia* (Special Clearance and Escrow System)
- SUSEP - *Superintendência de Seguros Privados* (Superintendence of Private Insurance)

T

- TRS - Total Return Swap
- TR - *Taxa Referencial* (Referential Rate)
- TVM - *Títulos de valores mobiliários* (Securities)

U

- UF - Chilean consumer index
- UI - Uruguayan consumer index
- U.S. - United States of America
- UYU - Uruguayan Peso

V

- VaR - Value at Risk
- VGBL - *Vida Gerador de Benefício Livre* (Brazilian private pension plan)

10 Glossary of Norms

- BACEN Circular nº 3,354 of June 27th, 2007
- BACEN Circular nº 3,383 of April 30 th, 2008
- BACEN Circular nº 3,393 of June 3rd, 2008
- BACEN Circular nº 3,477 of December 24th, 2009
- BACEN Circular nº 3,478 of December 24th, 2009
- BACEN Circular nº 3,568, of December 21th, 2011
- BACEN Circular nº 3.644, of March 04th, 2013
- BACEN Circular nº 3,646, of March 04th, 2013
- BACEN Circular nº 3,647, of March 04th, 2013
- BACEN Circular nº 3,648, of March 04th, 2013
- BACEN Circular nº 3,673, of October 31st, 2013
- BACEN Circular nº 3,674, of October 31st, 2013
- BACEN Circular nº 3,675, of October 31st, 2013
- BACEN Circular nº 3,676, of October 31st, 2013
- BACEN Circular nº 3,677, of October 31st, 2013
- BACEN Circular nº 3,678, of October 31st, 2013
- BACEN Circular nº 3,679, of October 31st, 2013
- SUSEP Circular nº 355 , of December 14th, 2007
- BACEN Circular Letter nº 3,315 of April 30th, 2008
- BACEN Circular Letter nº 3,316 of April 30th, 2008
- BACEN Circular Letter nº 3,581 of March 08th, 2012
- CNSP Circular nº 411 of December 22nd, 2010
- CNSP Resolution nº 158, of December 28th, 2006
- CNSP Resolution nº 168 of December 17th, 2007
- CNSP Resolution nº 178 of December 17th, 2007
- CNSP Resolution nº 200 of December 16th, 2008
- CNSP Resolution nº 227 of December 06th, 2010
- CNSP Resolution nº 228 of December 06th, 2010
- CNSP Resolution nº 280, of January 30th, 2013
- CNSP Resolution nº 282, of January 30th, 2013
- CNSP Resolution nº 283, of January 30th, 2013
- CNSP Resolution nº 284, of January 30th, 2013
- CNSP Resolution nº 302, of December 16th 2013
- CMN Resolution nº 2,804 of December 21st, 2000

- CMN Resolution nº 3,380 of June 29th, 2006
- CMN Resolution nº 3,444 of February 28th, 2007
- CMN Resolution nº 3,464 of June 26th, 2007
- CMN Resolution nº 3,533 of January 31st, 2008
- CMN Resolution nº 3,721 of April 30th, 2009
- CMN Resolution nº 3,809 of October 28th 2009
- CMN Resolution nº 3,921 of November 25th, 2010
- CMN Resolution nº 3,988 of June 30th, 2011
- CMN Resolution nº 4,090, of May 24th, 2012
- CMN Resolution nº 4,192, of March 1st, 2013
- CMN Resolution nº 4,193, of March 1st, 2013
- CMN Resolution nº 4,194, of March 1st, 2013
- CMN Resolution nº 4,195, of March 1st, 2013
- CMN Resolution nº 4,277, of October 31st, 2013
- CMN Resolution nº 4,278, of October 31st, 2013
- CMN Resolution nº 4,279, of October 31st, 2013
- CMN Resolution nº 4,280, of October 31st, 2013
- CMN Resolution nº 4,281, of October 31st, 2013
- CVM Regulatory Instruction nº 475 of December 17th, 2008