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Risk Management - Circular No. 3,477

Itaú Unibanco Holding S.A.

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Objective

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

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

Introduction

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

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

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

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

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

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

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

1 Risk Management

Itaú Unibanco regards risk management an essential instrument for optimizing the use of resources and selecting the best business opportunities in order to maximize the value creation to the shareholders.

Risk management at Itaú Unibanco is the process where:

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

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

The risk management processes permeate the entire institution and has the full involvement of the Board of Directors and the Senior Management, which, through Committees and Commissions Superiors, determines the overall objectives, expressed as targets and limits to the risk management business units. The control units, in turn, support the bank's management by means of monitoring procedures and risk analysis.

Meeting of National Monetary Council (CMN) Resolution No. 3,988 of June 30th, 2011, the Capital Management structure is being adapted and implemented in Itaú Unibanco. In January 2012, the Board of Directors has approved the appointment of the officer in charge and the establishment of the organizational structure, applicable to the whole financial conglomerate and to the other companies of the economic and financial consolidated. In June 2012, the Board of Directors has also approved the institutional policy and it was defined the processes, procedures and systems needed to effectively implement the Capital Management structure.

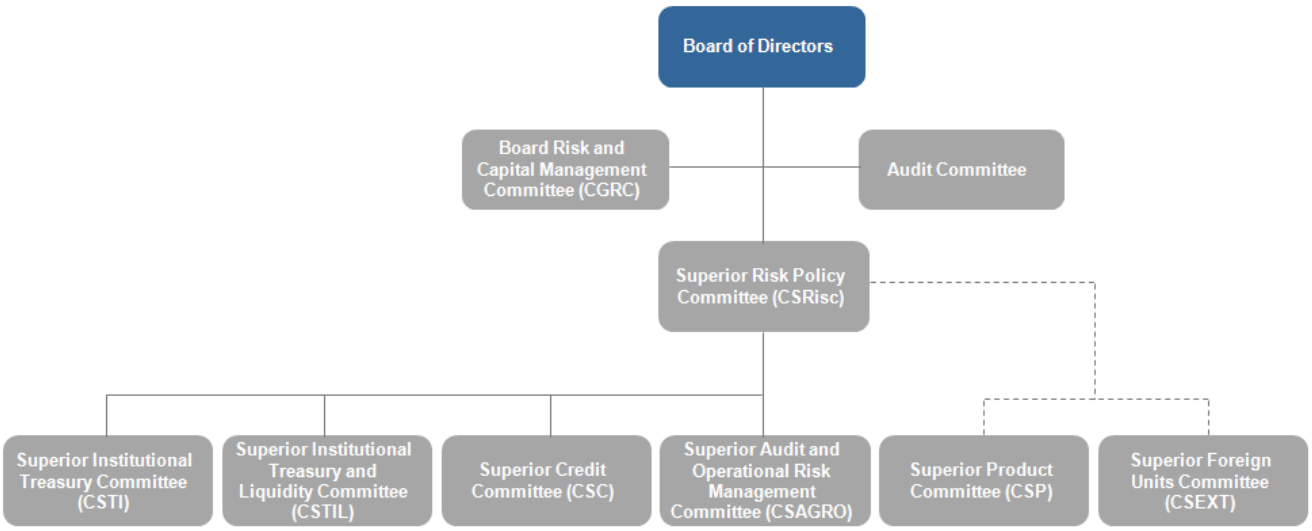
1.1 Centralized Control

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

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

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

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



Board Risk and Capital Management Committee (CGRC)

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

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

Audit Committee

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

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

The Committee is also responsible for taking care of:

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

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

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

Superior Risk Policy Committee (CSRisc)

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

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

Superior Institutional Treasury Committee (CSTI)

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

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

Superior Institutional Treasury and Liquidity Committee (CSTIL)

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

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

Superior Credit Committee (CSC)

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

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

Superior Audit and Operational Risk Management Committee (CSAGRO)

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

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

Superior Product Committee (CSP)

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

The main responsibilities of this Committee include:

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

Superior Foreign Units Committee (CSEXT)

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

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

1.3 Credit Risk

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

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

Itaú Unibanco's credit risk management aims at creating value to the shareholders, managing the risk adjusted return and maintaining the quality of loan portfolio at appropriate levels for each market segment in which Itaú Unibanco operates.

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

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

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

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

The centralized control area evaluates the impact of creation or modification of credit policies or products, before their implantation, in a manner to allow the identification and quantification of uncertainties inherent in each business unit. 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 validating and approving credit policies and models ensures the timing of credit actions and the optimization of business opportunities.

Credit Risk Measurement

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

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

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

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

Itaú Unibanco strictly controls the exposure to clients and counterparties credit, taking action to remedy occasional situations in which the actual exposure exceeds the desired one. In this sense, a series of measures provided for in contract may be adopted, such as the right to demand early payment or requirement of additional guarantee.

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

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

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

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

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

1.4 Market Risk

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

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

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

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

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

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

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

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

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

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

The market risk measurement segregates its operations in Banking and Trading Portfolios, according to the criterias established by the New Capital Accord – Basel II and by CMN Resolution No. 3,464 and BACEN Circular No. 3,354, of June 27th, 2007.

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

The Banking Portfolio is composed of transactions that are not classified in the Trading Portfolio. It's consists of transactions held without intent to trade in the short term. Its composition may include derivatives.

Itaú Unibanco hedges transactions with clients and proprietary positions, including its foreign investments, aiming at mitigating risks derived from prices fluctuations of the relevant market risk factors and take the trades thought the ongoing exposition limits. Derivatives are the instruments commonly used for these hedging activities. When these transactions are classified as hedge accounting, specific supporting

documentation is provided, including the continuous follow-up of the hedge effectiveness (retrospective and prospective) and other changes in the accounting process. The hedges accounting and economic procedure are governed by the internal policies of Itau Unibanco.

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

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

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

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

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

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

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

This limits control structure:

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

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

Market risk is analyzed based on the following metrics:

- Value at Risk (VaR): statistical metric that quantifies the maximum expected potential economic loss in normal market conditions, considering a defined holding period and confidence interval;
- Losses in Stress Scenarios (Stress Testing): simulation technique to evaluate the impact, in the assets and liabilities portfolio, of various risk factors in extreme market situations (based in prospective scenarios);
- Stop Loss Alert: effective losses added to the potential maximum loss in bullish and bearish scenarios;

- Earnings at Risk (EaR): measure that quantifies the impact on the impact on the unrealized profits of a certain portfolio, taking into consideration normal market conditions, time horizon related to the longest operation of the commercial portfolio and a pre-determined confidence interval.

In addition, sensitivity and loss control measures are also analyzed. They include:

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

1.5 Liquidity Risk

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

The liquidity risk management aims at using the best practices in order to ensure sufficient liquidity to withstand potential outflows in times of market stress scenario, as well as to ensure the compatibility between funding and terms and liquidity of assets.

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

The liquidity risk measurement process uses corporate systems and internally developed applications. The technology infrastructure used in the liquidity risk measurement processes is located in São Paulo, Brazil. The foreign units use local installations.

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

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

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

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

1.6 Insurance Risk

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

With the purpose of standardize practices and risk controls throughout the conglomerate, the risk control area establishes corporate policies, approved in different approval levels of Itaú Unibanco, for determining the institutional guidelines regarding the topics related to insurance risks.

Itaú Unibanco model for underwriting risks management aims, through clearly defining roles and responsibilities, at ensuring effective communication, tools and systems for proper risk management.

The managers of each of the business units exposed to underwriting risk of Itaú Unibanco are responsible for managing the risks under their responsibilities; the control risk areas ensure, independently, that the risk profiles of the areas are within the established limits, and Internal Audit, in turn, has the responsibility for performing independent verifications with regard to the effectiveness of established process for risk management, including the level of exposure and adequacy of the underwriting risk management structure of the conglomerate.

There is a governance process for evaluating new products and business proposals that ensures that all departments of the conglomerate related to the products and negotiations in question make an analysis regarding the many internal and regulatory requirements.

For the creation and change of underwriting risk policies, there is a governance process that ensures the approval of the risks that are intrinsic to products, processes or business proposals. According to the risk level, the decisions are made in different levels and they may reach the conglomerate's specific underwriting risk Committees or the CSRisc, observing the limits of authority levels.

Regular meetings are held for following up activities and points for decision related to issues associated with the underwriting risk.

Risk control governance establishes thresholds for risks between insurance and credit, in accordance with the National Council of Private Insurance (CNSP) Resolution No. 228, of December 6th, 2010. The internal policy defines the credit risk quality of reinsurance companies and the concentration limits in accordance with CNSP Resolution No. 168, of December 17th, 2007, following the same credit governance of the conglomerate.

1.7 Operational Risk

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

The operational risk events include:

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

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

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

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

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

Itaú Unibanco model for operational risks management aims, through clearly defining roles and responsibilities, at ensuring effective communication, tools and systems for proper risk management.

The managers of each of the business units and support areas are responsible for managing the risks under their responsibilities, the control areas of operational risk, internal controls and compliance ensure, independently, that the risk profiles of the areas are within the established limits and internal audit, in turn, has the responsibility for performing independent verifications with regard to the effectiveness of established processes for risk management.

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

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

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

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

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

- Identification: mapping of processes, risks and controls and capture of losses within a continuous process;
- Assessment/Measurement: assessment and measurement of risks through the analysis of severity and the probability of the risk becoming real;
- Response: responses to risks comprise four separate actions – mitigate, take, share or avoid risk;
- Mitigation: responses to the risks involved through preventive and/or corrective controls;
- Monitoring: control of exposure to the relevant risks by means of indicators;
- Reporting: presentation of the status and results of the assessment, response and monitoring of risks in several governance forums.

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

The information on the operational risk loss events presented in the reports is collected from the database of the bank's major systems. The amounts reconciled in the books are monthly reported to the business areas that regularly monitor losses and identify the processes that require measures for mitigating risks and reducing losses.

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

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

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

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

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

1.8 Crisis Management and Business Continuity

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

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

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

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

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

  - Emergency Plan: procedures aimed at minimizing the effects of emergency situations that may impact the institution's facilities, with a preemptive focus, since, when the risks are identified, it not only establishes the means to deal with the emergency, but also the definition of the composition of the intervention teams and their respective assignments;
  - Processes Contingency Plan: evaluation of 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): a tool used to evaluate 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): a tool used to evaluate the processes and the effectiveness of the controls in place to mitigate the inherent risks of interruption of the business as well as to implement actions to the gaps eventually identified.
- Threats and Vulnerabilities Analysis (TVA): a tool that focus on understanding the threats inherent to the locations where Itaú Unibanco runs its processes. 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.

For the sake of keeping the Program aligned and adapted with the complexity of markets where Itaú Unibanco operates, the organization has a team of professionals who are dedicated to the creation of its guidelines, implementation, maintenance, management, as well as the constant training and education of its employees.

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

2 Referential Equity

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

- Tier I: comprises capital, some reserves and retained earnings, less some intangibles;
- Tier II: includes, among others and under some limitations, asset revaluation reserves and subordinated debt and is limited to the amount of Capital Tier I.

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

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

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

R$ million

Composition of Tier I and Tier II	Financial system consolidated			Economic-financial consolidated		
	6/30/2012	3/31/2012	6/30/2011	6/30/2012	3/31/2012	6/30/2011
Stockholders' equity Itaú Unibanco Holding S.A. (Consolidated)	**75,636**	**72,484**	**66,083**	**75,636**	**72,484**	**66,083**
Minority interest in subsidiaries	1,251	1,156	1,028	1,817	1,905	2,762
Unrealized results	-	-	-	-	-	-
Consolidated stockholders' equity (BACEN)	**76,887**	**73,640**	**67,111**	**77,453**	**74,389**	**68,845**
Revaluation reserves excluded from Tier I	-	-	-	-	-	-
Deferred tax assets excluded from Tier I	(593)	(593)	(588)	(593)	(593)	(611)
Deferred permanent assets excluded from Tier I	(256)	(266)	(320)	(258)	(267)	(323)
Adjustment to market value – securities and derivative financial Instruments excluded from Tier I	(537)	48	32	(537)	47	32
Additional provision for loan, lease and other	-	-	-	-	-	-
Preferred shares with clause of redemption excluded from Tier I	(799)	(716)	(616)	(799)	(716)	(616)
Tier I	**74,702**	**72,113**	**65,619**	**75,267**	**72,860**	**67,327**
Subordinated debt	26,705	20,885	17,144	26,705	20,885	17,144
Preferred shares with clause of redemption	319	287	370	319	287	370
Revaluation reserves	-	-	-	-	-	-
Adjustments to market value - securities and derivative financial instruments	537	(48)	(32)	537	(48)	(32)
Tier II	**27,561**	**21,124**	**17,482**	**27,561**	**21,124**	**17,482**
Tier I + Tier II	**102,263**	**93,237**	**83,101**	**102,828**	**93,984**	**84,809**
Exclusions						
Funding instruments issued by financial institutions	(309)	(33)	(92)	(309)	(33)	(92)
Reference Equity (PR)	**101,954**	**93,204**	**83,009**	**102,519**	**93,951**	**84,717**

The funds obtained through the issue of subordinated debt securities and which are considered Tier II capital for the purpose of the ratio between capital and risk-weighted assets are described below.

R$ million

Subordinated Debt and Referential Equity Tier II	Maturities						6/30/2012	3/31/2012	6/30/2011
Name of instrument	**<1 ano**	**1-2 years**	**2-3 years**	**3-4 years**	**4-5 years**	**> 5 years**	**Total**	**Total**	**Total**
Bank Deposit Certificate (CDB)	5,202	3,222	1,657	4,368	1,349	-	15,799	23,764	23,132
Financial Bills	-	-	-	-	7,428	6,539	13,967	10,186	5,383
Euronotes	-	-	-	-	-	9,216	9,216	6,047	5,173
Subordinated Debt	**5,202**	**3,222**	**1,657**	**4,368**	**8,777**	**15,755**	**38,983**	**39,997**	**33,688**
Subject to approval - Central Bank of Brazil [1] and Other	-	-	-	213	2	3,751	3,965	4 .987	3,522
Subordinated Debt - Total	**5,202**	**3,222**	**1,657**	**4,581**	**8,778**	**19,507**	**42,948**	**44,984**	**37,210**
Subordinated Debt Reducer	(5,202)	(2,578)	(994)	(1,747)	(1,755)	-	(12,278)	(19,112)	(16,544)
Subordinated Debt - Tier II	**-**	**644**	**663**	**2,621**	**7,022**	**15,755**	**26,705**	**20,885**	**17,144**
Total - 3/31/2012	**13,337**	**188**	**4,657**	**4,266**	**5,617**	**11,932**	**39,997**		
Total - 6/30/2011	**9,062**	**5,462**	**2,902**	**1,480**	**3,892**	**10,890**	**33,688**		

[1] *Subordinated debt that does not make up the Tier II Referential Equity*

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

R$ million

Details of Subordinated Debts Elegibles to Capital							Variation	
				6/30/2012	3/31/2012	6/30/2011	Jun/12 - Mar/12	Jun/12 - Jun/11
Name of instrument	**Issue**	**Maturity**	**Compensation p.a.**		**Principal**			
Subordinated CDB [1]								
	2002	2012	102.5% of CDI	200	200	200	-	-
	2007	2012	103.8% of CDI	93	4,970	5,307	(4,877)	(5,214)
			CDI [2] + 0.35% to 0.45%	732	732	1,024	0	(292)
			IGPM[3] + 7.35%	278	278	291	(0)	(13)
	2003	2013	102% of CDI	40	40	40	-	-
	2008	2013	CDI + 0.5% to 0.6%	1,558	1,558	1,786	(0)	(228)
			106% to 107% of CDI	48	48	48	(0)	(0)
	2007	2014	CDI + 0.35% to 0.6%	1,865	1,865	1,865	1	1
			IGPM + 7.35%	33	33	33	(0)	(0)
	2008	2014	112% of CDI	1,000	1,000	1,000	-	-
	2008	2015	119.8% of CDI	400	400	400	-	-
	2010	2015	113% of CDI	50	50	50	-	-
	2006	2016	CDI + 0.7%	466	466	466	0	0
	2010	2016	110% to 114% of CDI	2,665	2,665	2,665	-	-
			IPCA[3] + 7.33%	123	123	123	1	1
	2010	2017	IPCA + 7.45%	367	367	367	0	0
			TOTAL	**9,918**	**14,794**	**15,665**	**(4,876)**	**(5,747)**
Subordinated financial bills								
	2010	2016	CDI + 1.35% to 1.36%	365	365	365	-	-
			112% to 112.5% of CDI	1,874	1,874	1,874	-	-
			IPCA + 7%	30	30	30	-	-
	2010	2017	IPCA + 6.95% to 7.2%	206	206	206	-	-
	2011	2017	108% to 112% of CDI	3,224	3,224	2,010	-	1,214
			CDI + 1.29% to 1.52%	3,650	3,650	2,861	-	789
			IPCA + 6.15% to 7.8%	352	352	140	-	212
			IGPM + 6.55% to 7.6%	138	138	20	-	118
	2011	2018	IGPM + 7%	42	42	42	-	-
			IPCA + 7.53% to 7.7%	30	30	30	-	-
	2012	2018	109% to 112.5 % of CDI	1,940	1	-	1,939	1,940
			IPCA + 5.76% to 6.58%	426	-	-	426	426
			CDI + 1.10% to 1.32%	1,108	-	-	1,108	1,108
			12.2%	12	-	-	12	12
	2011	2019	109% to 109.7% of CDI	2	1	-	1	2
	2012	2019	110 % of CDI	1	1	-	-	1
			12.2%	12	-	-	12	12
			IPCA + 5.83% to 6.14%	21	-	-	21	21
	2012	2020	111 % of CDI	1	1	-	-	1
			IPCA + 6.00% to 6.17%	20	-	-	20	20
	2011	2021	109.25% to 110.5 % of CDI	6	6	-	-	6
	2012	2022	IPCA + 5.83%	60	-	-	60	60
			TOTAL	**13,520**	**9,921**	**7,578**	**3,599**	**5,942**
Subordinated euronotes								
	2010	2020	6.2%	1,731	1,731	1,731	-	-
	2010	2021	5.75%	1,694	1,694	1,694	-	-
	2011	2021	5.75% to 6.2%	1,167	1,167	1,167	-	-
	2012	2021	6.2%	957	-	-	957	957
	2012	2022	5.65%	2,250	-	-	2,250	2,250
			TOTAL	**7,799**	**4,592**	**4,592**	3,207	3,207
			GRAND TOTAL	**31,237**	**29,307**	**27,834**	**1,930**	**3,402**
Subordinated Debt Reducer				(9,839)	(14,004)	(13,669)	4,165	3,831
Subordinated Debt - Tier II				**21,398**	**15,303**	**14,165**	**6,095**	**7,233**
Interests (Subordinated Debt - Tier II)				5,307	5,582	2,979	(275)	2,328
Amount Subordinated Debt - Tier II				**26,705**	**20,885**	**17,144**	**5,820**	**9,561**

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

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

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

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

The CNSP following the worldwide trend towards the strengthening of the insurance market, disclosed on December 6th, 2010 the Resolutions Nos. 227 - which revoked amended by Resolutions No. 178 of December 28th, 2007, and No. 200 of December 16th, 2008 - and Circular No. 411 of December 22nd, 2010. The regulations provide for the rules on regulatory capital required for authorization and operation of insurance companies and rules for the allocation of capital from subscription risk for several insurance lines. In January 2011, CNSP Resolution No. 228 came into effect, providing for the criteria for establishment of additional capital based on the credit risk of the supervised companies.

3 Required Referential Equity

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

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

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

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

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

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

- No. 3,309: clarifies the methodology used to determine standard volatilities and multipliers to be disclosed by BACEN for the calculation of PJUR1;
- No. 3,310: clarifies the methodology used to calculate the portions related to market risk;
- No. 3,315: shows examples of calculation of the operational risk portion according to BACEN Circular No. 3,383, of April 30th, 2008;
- No. 3,316: shows the composition of the exposure indicator for the calculation of the operational risk portion according to BACEN Circular No. 3,383;
- BACEN Circular No. 3,476, of December 24th, 2009, determines that, as from June 30th, 2010, an additional amount should be included in the portion related to the operational risk (POPR) for the

Economic-Financial Consolidated by using an indicator based on equity in earnings of subsidiaries and affiliates.

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

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

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

R$ million

Composition of Required Reference Equity (PRE)						
	Financial system consolidated					
Risk exposure	6/30/2012		3/31/2012		6/30/2011	
Regulatory portion required for credit risk coverage (PEPR)	61,229	90.8%	59,587	90.8%	53,318	92.3%
Regulatory portion required for operational risk coverage (POPR)	3,963	5.9%	3,963	6.0%	3,073	5.3%
Regulatory portion required for market risk coverage	2,210	3.3%	2,088	3.2%	1,365	2.4%
Required reference equity (PRE)	67,402	100.0%	65,638	100.0%	57,756	100.0%

R$ million

Composition of Required Reference Equity (PRE)						
	Economic-financial consolidated					
Risk exposure	6/30/2012		3/31/2012		6/30/2011	
Regulatory portion required for credit risk coverage (PEPR)	60,038	90.0%	57,886	90.0%	52,942	91.7%
Regulatory portion required for operational risk coverage (POPR)	4,394	6.6%	4,394	6.8%	3,435	6.0%
Regulatory portion required for market risk coverage	2,244	3.4%	2,051	3.2%	1,335	2.3%
Required reference equity (PRE)	66,676	100.0%	64,331	100.0%	57,712	100.0%

3.1 Economic Analysis

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

Domestic Market

The Brazilian economy has been recovering slower than expected. Due to weak Gross Domestic Product (GDP) data in the first quarter and the deterioration of the international scenario, projected growth in 2012 was revised from 3.1% to 2%. The economic policy stimulus implemented will likely lead to an acceleration of economic activity throughout the year, however probably less intense than expected.

GDP grew only 0.2% in the first quarter of 2012 compared to the fourth quarter of 2011, seasonally adjusted. A relevant portion of this weakness resulted from inventory adjustment and a larger than expected fall in agricultural GDP. Domestic demand continued to grow at a pace slightly above the previous quarter (0.8% in the first quarter of 2012 and 0.7% in the fourth quarter of 2011). However, recovery is more gradual than had been anticipated. Credit to individuals grew modestly during the first half of 2012, in light of macro-prudential measures adopted by the government in 2010 and partly due to the slower pace of economic activity. Business expectations remained at levels below those observed in the recent past, weighing on economic growth in the first half of 2012.

Bank credit in Brazil increased in May for the second consecutive month, after relative stability observed in the first quarter of 2012. Credit for companies increased 2.6% in real terms over April, seasonally adjusted, while credit to individuals fell 0.7%. Interest rates for companies and individuals fell for the third consecutive month. With the exception of individuals' default rate over 90 days (which still shows an upward trend), the remaining default rates to individuals and companies show signs of stabilization.

Weaker growth in Brazil and the world reduces the risk of inflation accelerating in coming quarters. We believe that the impact of the fall in commodity prices shall partially offset the depreciation of the Brazilian real (R$). Despite the weaker growth, the labor market remains heated. High salaries and wages and low unemployment cushion the impact of low growth on inflation. Thus, revisions in inflation forecasts mainly owe to microeconomic measures adopted by the government (tax incentives and administered prices). The Brazilian consumer index (IPCA) forecast for 2012 was reduced from 5.2% to 5%, incorporating the impact of the reduction in the Tax on Industrialized Products (IPI) for cars announced in late May. The measure shall be effective up to August 31st, initially, but may be extended until the end of 2013, or further.

In light of increased uncertainty connected to the international scenario and the possible impact on domestic activity, BACEN has continued to reduce the Selic benchmark interest rate in the first half of 2012. The base interest rate at the end of the semester stood at 8.5% per year, compared to 11% at the end of last year, prior to the downward cycle. In addition to a loosening monetary policy, the government has applied other instruments in order to stimulate the economy, such as tax cuts for some sectors and credit incentives. Additionally, the government changed the methodology for calculating savings account returns, which is now subject to a remuneration of 70% of the Selic rate, plus the Referential Rate (TR), whenever the Selic rate is below 8.5% a year. This change makes room for additional cuts in the basic interest rate in the coming months.

The exchange rate depreciated during the first half of 2012, closing at R$2.02 per dollar, compared to R$1.83 per dollar in March 31st ,2012. The rise in risk aversion and falling commodity prices contributed to such depreciation. In May, BACEN switched sides in its foreign exchange market intervention. After months of buying dollars in the future and spot markets, the monetary authority started to sell foreign exchange swaps, in order to limit the depreciation of the real. From May to mid-June, BACEN sold 7.9 billion dollars of such derivative. International reserves totaled 373 billion dollars at the end of June 2012, slightly above the 352 billion dollars recorded in December 2011.

The yield curve during the second quarter presented a parallel downward shift, while the market priced further cuts in interest rates. The curve presents a negative slope until early 2013, with the market pricing the

Interbank Deposit Certificate (CDI) at about 7.6% at the end of 2012. From this point onward, the curve resumes a positive slope.

In the second quarter of this year, the Ibovespa index fell by about 15.7%, driven by increased international risk aversion, exit of foreign investors from the domestic market and slowdown in economic activity. Fixed income issuances totaled 15.7 billion dollars and new equity issues summed 2.5 billion dollars.

International Market

Concerns about the recent elections in Greece and problems with banks in Spain have brought a new surge of pessimism to the markets. U.S. and China economies do not provide optimism to counterbalance European problems. After months of positive surprises, hopes for a strong pickup in growth have weakened. The Chinese economy is still slowing down. As uncertainty persists, and financial conditions deteriorate, the recession in the euro zone deepens and fiscal adjustment becomes harder.

U.S. economic data have been consistent with GDP growth of 2.1% in 2012. The annualized GDP growth rate in the first quarter stood at 1.9% compared to the previous quarter. Tighter financial conditions due to increased global uncertainty will likely be compensated by lower oil prices and lower long term interest rates.

Recent data show that the slowdown in activity in China has been greater in recent months. Industrial output had an annualized growth of 9.3% in April and 9.6% in May, following an average of 11.6% in the first quarter. Moreover, demand indicators such as fixed urban investment and retail sales also posted lower growth.

Due to high risk aversion, the dollar continued to appreciate against other currencies. The Dollar Index Spot (DXY) - the dollar against six major currencies - rose by 3.3% in the second quarter. The appreciation against Euro was 5.1%.

High risk aversion and concerns about economic activity also affected other financial assets. The S&P 500 index fell 3.3% and the German Stock Index (DAX) fell 7.6% in the second quarter of 2012. Treasuries ten-year note yields decreased further to approximately 1.6% by the end of the quarter.

3.2 Credit Risk

Evolution of Credit Portfolio

The information presented in the table below allows for the analysis of the credit portfolio and its behavior from many points of view: amount of overdue operations, segregated by overdue term, exposure segregated by FPR, economic sector and geographical region, including the average exposure in the quarter.

R$ million

Operations with Credit Granting Characteristics [1]: Exposure	Financial system consolidated			Economic-financial consolidated		
	6/30/2012	3/31/2012	6/30/2011	6/30/2012	3/31/2012	6/30/2011
Per weighting factor (FPR)						
FPR at 20%	1,739	1,417	1,134	1,739	1,417	1,134
FPR at 35%	4,782	4,547	265	4,782	4,547	265
FPR at 50%	16,235	15,684	7,935	16,235	15,683	7,935
FPR at 75%	164,394	169,503	175,923	159,585	164,668	171,442
FPR at 100%	243,822	229,015	200,460	243,664	229,124	200,510
FPR at 150% [2]	9,811	8,662	-	9,792	8,647	-
FPR de 300% [2]	299	210	-	299	210	-
Total	**441,083**	**429,038**	**385,717**	**436,096**	**424,296**	**381,286**
Per country						
Brazil	378,855	373,861	345,704	373,818	369,093	341,255
Abroad [3]	62,228	55,177	40,013	62,278	55,204	40,031
Total	**441,083**	**429,038**	**385,717**	**436,096**	**424,296**	**381,286**
Per region						
Southeastern	281,675	275,590	252,266	278,243	272,442	249,259
Southern	39,462	39,769	37,774	38,785	39,077	37,210
Northen	7,464	7,565	7,288	7,427	7,527	7,245
Nordeastern	31,167	31,476	30,328	30,566	30,882	29,785
Central-western	19,087	19,461	18,048	18,798	19,165	17,757
Total	**378,855**	**373,861**	**345,704**	**373,818**	**369,093**	**341,255**

[1] *Includes endorsements, sureties and committed loans.*

[2] *Inclusion of the 150% and 300% weighting factors as from base date July 2011, in accordance with Circular No. 3,515 that was revoked and replaced by Circular No. 3,563 in November 2011.*

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

R$ million

Operations with Credit Granting Characteristics [1]: Average Exposure for the Quarter	Financial system consolidated			Economic-financial consolidated		
	2nd quarter of	1st quarter of	2nd quarter of	2nd quarter of	1st quarter of	2nd quarter of
Per weighting factor (FPR)						
FPR at 20%	1,578	1,730	1,157	1,578	1,730	1,157
FPR at 35%	4,665	4,406	1,257	4,665	4,406	1,257
FPR at 50%	15,959	15,166	10,141	15,959	15,165	10,142
FPR at 75%	166,949	169,539	169,332	162,127	164,679	164,935
FPR at 100%	236,419	227,227	194,985	236,394	227,319	195,060
FPR at 150% [2]	9,237	9,084	-	9,219	9,074	-
FPR de 300% [2]	254	165	-	254	165	-
Total	**435,060**	**427,318**	**376,873**	**430,196**	**422,538**	**372,550**
Per country						
Brazil	376,358	372,511	338,068	371,455	367,706	333,727
Abroad [3]	58,703	54,807	38,805	58,741	54,832	38,823
Total	**435,060**	**427,318**	**376,873**	**430,196**	**422,538**	**372,550**
Per region						
Southeastern	278,633	273,730	248,711	275,343	270,564	245,503
Southern	39,615	39,869	35,973	38,931	39,172	35,664
Northen	7,514	7,613	7,100	7,477	7,573	7,057
Nordeastern	31,321	31,846	28,927	30,724	31,245	28,423
Central-western	19,274	19,453	17,355	18,981	19,153	17,080
Total	**376,358**	**372,511**	**338,068**	**371,455**	**367,706**	**333,727**

[1] *Includes endorsements, sureties and committed loans.*

[2] *Inclusion of the 150% and 300% weighting factors as from base date July 2011, in accordance with Circular No. 3,515 that was revoked and replaced by Circular No. 3,563 in November 2011.*

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

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

R$ million

Operations with Credit Granting Characteristics [1] - Business Sectors: Exposure				
	Financial system consolidated			
Business sectors	6/30/2012		3/31/2012	
	Total	%	Total	%
PUBLIC SECTOR	**65**	0.0%	**18**	**0.0%**
GENERATION, TRANSMISSION AND DISTRIBUTION OF ELE	-	0.0%	-	0.0%
CHEMICAL AND PETROCHEMICAL	-	0.0%	-	0.0%
OTHER	65	0.0%	18	0.0%
PRIVATE SECTOR	**441,018**	**100.0%**	**429,020**	**99.9%**
COMPANIES	**263,579**	**59.5%**	**251,023**	**58.5%**
SUGAR AND ALCOHOL	8,667	2.0%	7,982	1.9%
AGRIBUSINESS AND FERTILIZERS	13,114	3.0%	12,447	2.9%
FOOD AND BEVERAGE	14,023	3.2%	13,181	3.1%
BANKS AND OTHER FINANCIAL INSTITUTIONS	9,190	2.1%	8,974	2.1%
CAPITAL ASSETS	8,864	2.0%	8,576	2.0%
PULP AND PAPER	3,009	0.7%	2,893	0.7%
ELECTRONIC AND IT	6,383	1.5%	6,203	1.4%
PACKAGING	2,155	0.5%	2,120	0.5%
ENERGY AND SEWAGE	10,668	2.4%	10,781	2.5%
EDUCATION	1,430	0.3%	1,313	0.3%
PHARMACEUTICALS AND COSMETICS	6,225	1.4%	6,593	1.5%
REAL ESTATE AGENTS	19,611	4.5%	19,027	4.4%
ENTERTAINMENT AND TOURISM	3,605	0.8%	3,467	0.8%
WOOD AND FURNITURE	3,021	0.7%	2,926	0.7%
CONSTRUCTION MATERIAL	5,601	1.3%	5,399	1.3%
STEEL AND METALLURGY	10,717	2.4%	10,137	2.4%
MEDIA	1,464	0.3%	1,556	0.4%
MINING	4,308	1.0%	3,895	0.9%
INFRASTRUCTURE WORK	6,949	1.6%	6,796	1.6%
OIL AND GAS	4,129	0.9%	4,007	0.9%
PETROCHEMICAL AND CHEMICAL	9,890	2.3%	10,081	2.3%
HEALTH CARE	2,281	0.5%	2,243	0.5%
INSURANCE AND REINSURANCE AND PENSION PLANS	44	0.0%	44	0.0%
TELECOMMUNICATIONS	5,556	1.3%	5,125	1.2%
CLOTHING AND FOOTWEAR	5,144	1.2%	5,127	1.2%
TRADING	1,999	0.5%	1,997	0.5%
TRANSPORTATION	17,528	4.0%	17,325	4.0%
DOMESTIC APPLIANCES	3,206	0.7%	3,157	0.7%
VEHICLES AND AUTOPARTS	19,224	4.4%	18,853	4.4%
THIRD SECTOR	148	0.0%	158	0.0%
PUBLISHING AND PRINTING	1,716	0.4%	1,685	0.4%
COMMERCE - SUNDRY	16,408	3.7%	15,280	3.6%
INDUSTRY - SUNDRY	5,536	1.3%	3,617	0.8%
SUNDRY SERVICES	19,092	4.4%	16,288	3.8%
SUNDRY	12,675	2.4%	11,772	2.7%
INDIVIDUALS	**177,439**	**40.4%**	**177,997**	**41.5%**
CREDIT CARDS	36,414	8.3%	36,001	8.4%
REAL ESTATE FINANCING	19,507	4.4%	17,908	4.2%
CONSUMER LOANS/OVERDRAFT	69,813	15.9%	69,751	16.3%
VEHICLES	51,705	11.8%	54,337	12.7%
GRAND TOTAL	**441,083**	**100%**	**429,038**	**100.0%**

[1] *Includes endorsements, sureties and loan commitments.*

R$ million

Operations with Credit Granting Characteristics [1] - Business Sectors: Exposure

Business sectors	Economic-financial consolidated			
	6/30/2012		3/31/2012	
	Total	%	Total	%
PUBLIC SECTOR	**77**	**0.0%**	**33**	**0.0%**
GENERATION, TRANSMISSION AND DISTRIBUTION OF ELEC	-	0.0%	-	0.0%
CHEMICAL AND PETROCHEMICAL	-	0.0%	-	0.0%
OTHER	77	0.0%	33	0.0%
PRIVATE SECTOR	**436,019**	**100.0%**	**424,263**	**99.9%**
COMPANIES	**263,332**	**60.4%**	**251,025**	**59.2%**
SUGAR AND ALCOHOL	8,667	2.0%	7,982	1.9%
AGRIBUSINESS AND FERTILIZERS	13,114	3.0%	12,447	2.9%
FOOD AND BEVERAGE	14,023	3.2%	13,181	3.1%
BANKS AND OTHER FINANCIAL INSTITUTIONS	9,190	2.1%	8,974	2.1%
CAPITAL ASSETS	8,864	2.0%	8,576	2.0%
PULP AND PAPER	3,009	0.7%	2,893	0.7%
ELECTRONIC AND IT	6,383	1.5%	6,203	1.5%
PACKAGING	2,155	0.5%	2,120	0.5%
ENERGY AND SEWAGE	10,689	2.4%	10,781	2.5%
EDUCATION	1,430	0.3%	1,313	0.3%
PHARMACEUTICALS AND COSMETICS	6,225	1.4%	6,593	1.6%
REAL ESTATE AGENTS	19,611	4.5%	19,027	4.5%
ENTERTAINMENT AND TOURISM	3,605	0.8%	3,467	0.8%
WOOD AND FURNITURE	3,021	0.7%	2,926	0.7%
CONSTRUCTION MATERIAL	5,601	1.3%	5,399	1.3%
STEEL AND METALLURGY	10,717	2.5%	10,137	2.4%
MEDIA	1,464	0.3%	1,556	0.4%
MINING	4,308	1.0%	3,895	0.9%
INFRASTRUCTURE WORK	6,949	1.6%	6,796	1.6%
OIL AND GAS	4,130	0.9%	4,008	0.9%
PETROCHEMICAL AND CHEMICAL	9,890	2.3%	10,081	2.4%
HEALTH CARE	2,281	0.5%	2,243	0.5%
INSURANCE AND REINSURANCE AND PENSION PLANS	44	0.0%	44	0.0%
TELECOMMUNICATIONS	5,556	1.3%	5,125	1.2%
CLOTHING AND FOOTWEAR	5,144	1.2%	5,127	1.2%
TRADING	1,999	0.5%	1,997	0.5%
TRANSPORTATION	17,528	4.0%	17,325	4.1%
DOMESTIC APPLIANCES	3,206	0.7%	3,157	0.7%
VEHICLES AND AUTOPARTS	19,224	4.4%	18,853	4.4%
THIRD SECTOR	148	0.0%	158	0.0%
PUBLISHING AND PRINTING	1,716	0.4%	1,685	0.4%
COMMERCE - SUNDRY	16,408	3.8%	15,280	3.6%
INDUSTRY - SUNDRY	5,536	1.3%	3,617	0.9%
SUNDRY SERVICES	19,103	4.4%	16,299	3.8%
SUNDRY	12,395	2.9%	11,762	2.8%
INDIVIDUALS	**172,687**	**39.6%**	**173,238**	**40.8%**
CREDIT CARDS	33,444	7.7%	32,994	7.8%
REAL ESTATE FINANCING	19,507	4.5%	17,908	4.2%
CONSUMER LOANS/OVERDRAFT	68,031	15.6%	67,998	16.0%
VEHICLES	51,705	11.8%	54,337	12.8%
GRAND TOTAL	**436,096**	**100.0%**	**424,296**	**100.0%**

[1] *Includes endorsements, sureties and loan commitments.*

R$ million

Operations with Credit Granting Characteristics [1] – Composition By Business Section: Average for the Quarter				
	Financial system consolidated		Economic-financial consolidated	
Business sectors	2nd quarter of 2012		2nd quarter of 2012	
	Total	%	Total	%
PUBLIC SECTOR	**41**	**0.0%**	**55**	**0.0%**
GENERATION, TRANSMISSION AND DISTRIBUTION OF ELE	-	0.0%	-	0.0%
CHEMICAL AND PETROCHEMICAL	-	0.0%	-	0.0%
OTHER	41	0.0%	55	0.0%
PRIVATE SECTOR	**435,019**	**100.0%**	**430,141**	**100.0%**
COMPANIES	**257,301**	**59.1%**	**257,178**	**59.8%**
SUGAR AND ALCOHOL	8,325	1.9%	8,325	1.9%
AGRIBUSINESS AND FERTILIZERS	12,780	2.9%	12,780	3.0%
FOOD AND BEVERAGE	13,602	3.1%	13,602	3.2%
BANKS AND OTHER FINANCIAL INSTITUTIONS	9,082	2.1%	9,082	2.1%
CAPITAL ASSETS	8,720	2.0%	8,720	2.0%
PULP AND PAPER	2,951	0.7%	2,951	0.7%
ELECTRONIC AND IT	6,293	1.4%	6,293	1.5%
PACKAGING	2,137	0.5%	2,137	0.5%
ENERGY AND SEWAGE	10,725	2.5%	10,735	2.5%
EDUCATION	1,372	0.3%	1,372	0.3%
PHARMACEUTICALS AND COSMETICS	6,409	1.5%	6,409	1.5%
REAL ESTATE AGENTS	19,319	4.4%	19,319	4.5%
ENTERTAINMENT AND TOURISM	3,536	0.8%	3,536	0.8%
WOOD AND FURNITURE	2,974	0.7%	2,974	0.7%
CONSTRUCTION MATERIAL	5,500	1.3%	5,500	1.3%
STEEL AND METALLURGY	10,427	2.4%	10,427	2.4%
MEDIA	1,510	0.3%	1,510	0.4%
MINING	4,102	0.9%	4,102	1.0%
INFRASTRUCTURE WORK	6,873	1.6%	6,873	1.6%
OIL AND GAS	4,068	0.9%	4,069	0.9%
PETROCHEMICAL AND CHEMICAL	9,985	2.3%	9,985	2.3%
HEALTH CARE	2,262	0.5%	2,262	0.5%
INSURANCE AND REINSURANCE AND PENSION PLANS	44	0.0%	44	0.0%
TELECOMMUNICATIONS	5,340	1.2%	5,340	1.2%
CLOTHING AND FOOTWEAR	5,136	1.2%	5,136	1.2%
TRADING	1,998	0.5%	1,998	0.5%
TRANSPORTATION	17,427	4.0%	17,427	4.1%
DOMESTIC APPLIANCES	3,182	0.7%	3,182	0.7%
VEHICLES AND AUTOPARTS	19,038	4.4%	19,038	4.4%
THIRD SECTOR	153	0.0%	153	0.0%
PUBLISHING AND PRINTING	1,700	0.4%	1,700	0.4%
COMMERCE - SUNDRY	15,844	3.6%	15,844	3.7%
INDUSTRY - SUNDRY	4,576	1.1%	4,576	1.1%
SUNDRY SERVICES	17,690	4.1%	17,701	4.1%
SUNDRY	12,224	2.8%	12,079	2.8%
INDIVIDUALS	**177,718**	**40.8%**	**172,962**	**40.2%**
CREDIT CARDS	36,207	8.3%	33,219	7.7%
REAL ESTATE FINANCING	18,708	4.3%	18,708	4.3%
CONSUMER LOANS/OVERDRAFT	69,782	16.0%	68,015	15.8%
VEHICLES	53,021	12.2%	53,021	12.3%
GRAND TOTAL	**435,060**	**100.0%**	**430,196**	**100.0%**

[1] *Includes endorsements, sureties and loan commitments.*

Credit Concentration

R$ million

Percentage of Exposures of Major Clients in Relation to Total Operations with Credit Granting Characteristics						
	Exposure	% of portfolio	Exposure	% of portfolio	Exposure	% of portfolio
Loan, lease and other credit operations [1]	**6/30/2012**		**3/31/2012**		**6/30/2011**	
Largest debtor	4,070	1.0%	3,296	0.8%	2,356	0.7%
10 largest debtors	25,280	6.1%	22,556	5.6%	18,474	5.1%
20 largest debtors	40,950	9.9%	37,411	9.3%	30,798	8.6%
50 largest debtors	64,414	15.6%	59,058	14.7%	51,178	14.2%
100 largest debtors	84,541	20.5%	77,651	19.4%	67,946	18.9%

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

R$ million

Percentage of Exposures of Major Clients in Relation to Total Operations with Credit Granting Characteristics						
	Exposure	% of portfolio	Exposure	% of portfolio	Exposure	% of portfolio
Loan, lease and other credit operations and securities of companies and financial institutions [1]	**6/30/2012**		**3/31/2012**		**6/30/2011**	
Largest debtor	5,856	1.3%	3,921	0.9%	4,826	1.2%
10 largest debtors	35,834	7.7%	30,946	7.0%	28,509	7.1%
20 largest debtors	57,086	12.3%	50,464	11.3%	46,538	11.6%
50 largest debtors	90,846	19.5%	80,911	18.2%	74,105	18.4%
100 largest debtors	116,546	25.0%	105,468	23.7%	96,165	23.9%

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

Overdue Amounts

R$ million

Overdue Amounts						
	Financial system consolidated			Economic-financial consolidated		
Overdue	**6/30/2012**	**3/31/2012**	**6/30/2011**	**6/30/2012**	**3/31/2012**	**6/30/2011**
Between 1 and 14 days	10,646	11,296	9,174	10,591	11,247	9,111
Up to 60 days	12,383	12,835	11,531	12,275	12,717	11,395
Between 61 and 90 days	4,054	3,977	3,079	3,992	3,913	3,014
Between 91 and 180 days	7,848	8,095	6,730	7,693	7,941	6,557
Over 180 days	11,031	9,945	8,037	10,749	9,617	7,803

Allowance for Loan Losses

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

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

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

R$ million

Changes in Allowance for Loan Losses	Financial system consolidated			Economic-financial consolidated [1]		
	2nd quarter of 2012	1st quarter of 2012	2nd quarter of 2011	2nd quarter of 2012	1st quarter of 2012	2nd quarter of 2011
Opening balance	**(26,468)**	**(26,337)**	**(22,746)**	**(25,951)**	**(25,772)**	**(22,239)**
Net increase for the period	(6,108)	(6,156)	(5,252)	(5,988)	(6,031)	(5,107)
Required by Resolution No. 2,682/99	(6,108)	(6,156)	(5,252)	(5,988)	(6,031)	(5,107)
Additional	-	-	-	-	-	-
Write-Off	5,018	6,025	3,693	4,884	5,852	3,572
Closing balance	**(27,558)**	**(26,468)**	**(24,305)**	**(27,056)**	**(25,951)**	**(23,775)**
Regulatory allowance	(22,486)	(21,396)	(19,199)	(21,998)	(20,893)	(18,717)
Additional allowance	(5,072)	(5,072)	(5,106)	(5,058)	(5,058)	(5,058)

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

R$ million

Composition of the result of allowance for loan losses	Financial system consolidated			Economic-financial consolidated		
	2nd quarter of 2012	1st quarter of 2012	2nd quarter of 2011	2nd quarter of 2012	1st quarter of 2012	2nd quarter of 2011
Expenses for allowance for loan losses	(6,108)	(6,156)	(5,252)	(5,988)	(6,031)	(5,107)
Income from recovery of credits written off as loss	1,088	1,157	1,331	1,126	1,192	1,393
Result of allowance for loan losses	**(5,020)**	**(4,999)**	**(3,921)**	**(4,862)**	**(4,839)**	**(3,714)**

Mitigating Instruments

As a way to control credit risk, Itaú Unibanco has a corporate policy that sets out the general guidelines and responsibilities related to the use of guarantees; in addition, each business unit, responsible for credit risk management, formalizes the use of 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 risk of its portfolios of loans and securities; these instruments are priced based on models that use the fair value of market inputs, such as credit spreads, recovery rates, correlations and interest rates.

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

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

Operations of Securitization

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

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

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

R$ million

Operations with Securities Arising from Securitization Process						
	Financial system consolidated			Economic-financial consolidated		
Security	**6/30/2012**	**3/31/2012**	**6/30/2011**	**6/30/2012**	**3/31/2012**	**6/30/2011**
CRIs	8,706	8,414	7,822	8,714	8,423	7,836
FIDCs	720	702	667	913	892	865

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, of October 28th, 2009, the amount of operations assigned with joint obligation, at June 30th, 2012 where the entity significantly retained the related risks and benefits is R$ 483 million, composed of real estate financing of R$ 464 million and farming financing of R$ 19 million.

Beginning January 2012, as provided for by CMN Resolution No. 3,533/08 and supplementary regulation, accounting records take into consideration the retention or non-retention of risks and benefits on sale or transfers of financial assets.

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 subordinated quotas of credit rights funds. The financial assets that are the subject matter of the assignment of credits that were recorded as credit operations amount to R$ 29 million and the amount received recorded as liabilities from credit assignment operations totals R$ 29 million.

R$ million

Sale or Transfer of Financial Assets						
	Financial system consolidated			Economic-financial consolidated		
	6/30/2012	**3/31/2012**	**6/30/2011**	**6/30/2012**	**3/31/2012**	**6/30/2011**
Balance of exposures assigned with significant withholding of risks and benefits	512	545	32	512	545	32
Flow of exposures assigned in the quarter with significant transfer of risks and benefits	151	304	718	151	304	718

In the period, loan portfolios with assignor's risk retention the, in the amount of R$ 1,015 million totaling R$2,805 million at June 30th, 2012, were also purchased.

Counterparty Credit Risk

Itaú Unibanco considers the counterparty's credit risk as the possibility of failure by certain counterparty to fulfill its respective obligations contracted that involve financial instruments.

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

R$ million

Contracts Subject to Counterparty Credit Risk						
	Financial system consolidated			Economic-financial consolidated		
	6/30/2012	**3/31/2012**	**6/30/2011**	**6/30/2012**	**3/31/2012**	**6/30/2011**
Notional Amount						
Liquidated in Liquidation Systems (stock exchange) [1]	1,656,197	1,075,052	3,141,252	1,660,891	1,079,488	3,145,278
Not Liquidated in Liquidation Systems (over-the-counter)	431,749	442,236	254,079	451,382	436,662	249,765
Total Gross Positive Amount	140,047	175,390	112,765	139,520	174,930	112,242
(-) Amounts related to Netting Arrangements	-	-	-	-	-	-
(-) Guarantees	(21,425)	(22,182)	(29,225)	(10,257)	(21,827)	(29,222)
(=) Net Global Exposure to the Counterparty Credit Risk	118,622	153,208	83,540	129,263	153,103	83,020

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

R$ million

Contracts Subject to Counterparty Credit Risk	Financial system consolidated			Economic-financial consolidated		
	6/30/2012	3/31/2012	6/30/2011	6/30/2012	3/31/2012	6/30/2011
Hedges [1]	3,643	3,120	4,002	3,643	3,120	4,002
Exposures to credit risk covered by notional amount of hedges [1]	3,643	3,120	4,002	3,643	3,120	4,002
Percentage	100%	100%	100%	100%	100%	100%

[1] *Hedges carried out through credit derivatives.*

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 swaps, total return swaps and credit-linked notes.

CDS are credit derivatives 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, based on its historical experience, that the amount of the maximum potential loss does not represent the actual level of loss. This is so because, should there be an event of loss, 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.

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.

R$ million

Notional Amount of Credit Derivatives Held in Portfolio	Financial system consolidated			Economic-financial consolidated		
	6/30/2012	3/31/2012	6/30/2011	6/30/2012	3/31/2012	6/30/2011
Risk Received	**5,472**	**4,057**	**2,814**	**5,472**	**4,057**	**2,971**
Credit Default Swap (CDS)	5,472	4,057	2,806	5,472	4,057	2,963
Total Return Swap (TRS)	-	-	8	-	-	8
Risk Transferred	**3,643**	**3,120**	**4,002**	**3,643**	**3,120**	**4,002**
Credit Default Swap (CDS)	2,585	1,949	3,348	2,585	1,949	3,348
Total Return Swap (TRS)	1,058	1,171	654	1,058	1,171	654
Total	**1,829**	**937**	**(1,188)**	**1,829**	**937**	**(1,031)**

According to CMN Resolution No. 3,490, which became effective on July 1, 2008, the effect of the calculation of the Required Referential Equity amounts at 6/30/2012 financial system consolidated and economic-financial consolidated is R$107 million.

Itaú Unibanco does not trade credit derivatives for intermediation purposes.

Risk-Factor Weighted Exposures (PEPR)

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

R$ million

Composition of PEPR	Financial system consolidated			Economic-financial consolidated		
	6/30/2012	3/31/2012	6/30/2011	6/30/2012	3/31/2012	6/30/2011
Risk exposures						
Exposure weighted by credit risk (EPR)	**556,627**	**541,694**	**484,708**	**545,796**	**526,233**	**481,289**
Regulatory portion required for credit risk coverage (PEPR)	**61,229**	**59,587**	**53,318**	**60,038**	**57,886**	**52,942**
a) Per weighting factor (FPR):						
FPR at 20%	299	223	224	437	355	379
FPR at 35%	184	175	10	184	175	10
FPR at 50%	3,780	3,600	2,359	4,759	4,598	3,841
FPR at 75%	13,562	13,984	14,507	13,166	13,585	14,126
FPR at 100%	39,748	38,505	34,912	37,722	35,996	33,197
FPR at 150% [1]	1,619	1,429		1,616	1,427	
FPR at 300% [1]	1,732	1,361	1,007	1,846	1,437	1,085
Derivatives - potential future gain	305	309	299	308	313	304
b) Per Type:						
Securities	3,234	2,994	2,948	3,296	3,051	3,090
Loan operations - Retail	10,799	11,165	11,812	10,526	10,891	11,554
Loan operations - Non-retail	22,217	20,679	16,427	22,230	20,690	16,441
Joint liabilities - Retail	43	46	7	43	46	7
Joint liabilities - Non-retail	6,181	5,782	4,602	6,146	5,780	4,609
Loan commitments - Retail	2,720	2,774	2,688	2,597	2,648	2,565
Loan commitments - non-retail	1,790	1,723	1,502	1,791	1,723	1,502
Other exposures	14,244	14,424	13,332	13,409	13,057	13,174

[1] *Inclusion of the 150% and 300% weighting factors as from base date July 2011, in accordance with Circular No. 3,515 that was revoked and replaced by Circular No. 3,563 in November 2011.*

3.3 Market Risk

Trading and Banking Portfolios – Regulatory Model

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

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

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

R$ million

Regulatory Portions Required for Market Risk Coverage						
	Financial system consolidated			Economic-financial consolidated		
	6/30/2012	3/31/2012	6/30/2011	6/30/2012	3/31/2012	6/30/2011
Regulatory portion required for market risk coverage of the trading book:	**2,210**	**2,088**	**1,365**	**2,244**	**2,051**	**1,335**
Trades subject to interest rate variation (PJUR)	**2,030**	**1,865**	**1,173**	**2,064**	**1,828**	**1,143**
Fixed income interest rate denominated in reais (PJUR1)	506	460	163	506	460	163
Foreign exchange linked interest rate (PJUR2)	933	845	477	941	808	447
Price index linked interest rate (PJUR3)	425	418	415	451	418	415
Interest rate linked interest rate (PJUR 4)	166	142	118	166	142	118
Trades subject to commodity price variation (PCOM)	**101**	**112**	**130**	**101**	**112**	**130**
Trades subject to equities price variation (PACS)	**79**	**111**	**62**	**79**	**111**	**62**
Trades subject to the risk of exposures in gold, foreign currency and foreign exchange rate variations (PCAM) [1]	**-**	**-**	**-**	**-**	**-**	**-**
Referential equity calculated for covering the interest rate risk of trades of the banking book (RBAN)	**6,169**	**1,335**	**538**	**6,749**	**1,582**	**546**

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

Evolution of the Trading Portfolio

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

R$ million

Trading Position						
	6/30/2012		3/31/2012		6/30/2011	
	Long	Short	Long	Short	Long	Short
Interest rates	206,795	(192,379)	159,186	(136,970)	100,447	(138,427)
Foreign exchange rates	121,504	(117,970)	105,874	(103,580)	88,092	(84,527)
Equities	6,802	(6,609)	11,113	(11,472)	6,090	(5,875)
Commodities	187	(86)	269	(43)	273	(232)

Evolution of the Derivatives Portfolio

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

R$ million

Derivatives: Trades in Brazil – Trading + Banking – With Central Counterparty	6/30/2012		3/31/2012		6/30/2011	
	Long	Short	Long	Short	Long	Short
Interest rates	324,882	(329,730)	181,004	(274,537)	193,205	(346,595)
Foreign exchange rates	28,061	(45,084)	30,838	(46,104)	32,264	(40,440)
Equities	2,383	(1,895)	5,912	(4,855)	2,854	(1,744)
Commodities	447	(149)	159	(98)	36	(335)

R$ million

Derivatives: Trades in Brazil – Trading + Banking – Without Central Counterparty	6/30/2012		3/31/2012		6/30/2011	
	Long	Short	Long	Short	Long	Short
Interest rates	514,823	(569,382)	696,262	(697,152)	469,212	(494,374)
Foreign exchange rates	224,868	(224,552)	163,728	(165,173)	101,962	(106,881)
Equities	1,044	(1,129)	2,126	(2,984)	2,194	(3,403)
Commodities	525	(720)	873	(691)	654	(528)

R$ million

Derivatives: Foreign Trades – Trading + Banking – With Central Counterparty	6/30/2012		3/31/2012		6/30/2011	
	Long	Short	Long	Short	Long	Short
Interest rates	2,876	(1,139)	3,113	(697)	3,684	(1,573)
Foreign exchange rates	60,459	(59,549)	48,049	(47,689)	12,441	(12,221)
Equities	0	(41)	112	(393)	40	(81)
Commodities	5	(13)	246	(266)	322	(121)

R$ million

Derivatives: Foreign Trades – Trading + Banking – Without Central Counterparty	6/30/2012		3/31/2012		6/30/2011	
	Long	Short	Long	Short	Long	Short
Interest rates	86,359	(87,966)	97,843	(100,814)	26,509	(33,045)
Foreign exchange rates	806,268	(807,518)	660,518	(658,891)	262,429	(257,610)
Equities	188	(167)	173	(173)	33	(33)
Commodities	23	(16)	8	(5)	10	(1)

VaR – Consolidated Itaú Unibanco

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

The table Consolidated Global VaR provides an analysis of the exposures to market risk faced by the portfolios of Itaú Unibanco and its foreign subsidiaries (foreign subsidiaries: *Banco Itaú BBA* International *S.A., Banco Itaú Argentina S.A., Banco Itaú Chile S.A., Banco Itaú Uruguai S.A.* and *Banco Itaú Paraguai S.A.*); showing where there are higher concentrations of market risk.

The Itaú Unibanco, maintaining its conservative management and portfolio diversification, kept its policy of operating within lower limits in relation to its capital.

In order to improve the quality of the market risk quantitative information and in line with the institution's vision for continuous improvement, this quarter, Itaú Unibanco reallocated, in the VaR table, the risk factors to their respective groups. This reallocation does not affect the institution's exposure to market risk, which can be verified based on the absence of changes in the Total Global VaR amounts. The figures presented in this publication, related to the current and previous quarters, already reflect the reallocation of the risk factors.

The recent changes related to the basic interest rate and savings account led to fluctuations in futures market interest rate structure, increasing the volatility of financial markets and increasing global VaR of the Itaú Unibanco's portfolio this quarter.

R$ million

VaR – Itaú Unibanco Holding				
VaR by Risk Factor Group		**6/30/2012**	**3/31/2012**	**6/30/2011**
Itaú Unibanco	Interest rate	190.8	101.4	28.1
	Foreign exchange linked	24.8	20.7	36.3
	Foreign exchange rates	17.0	20.1	13.9
	Price index linked	229.6	27.0	9.8
	Variable Income	17.7	23.0	27.0
Itaú Unibanco Foreign Units	*Banco Itaú BBA International*	1.6	1.8	0.7
	Banco Itaú Argentina	2.4	2.5	2.6
	Banco Itaú Chile	6.1	9.2	1.9
	Banco Itaú Uruguay	1.7	1.2	0.3
	Banco Itaú Paraguay [1]	0.2	0.3	1.1
Diversification effect		(90.3)	(64.7)	(42.7)
Global VaR		**401.5**	**142.5**	**79.0**
Maximum Global VaR of the Quarter		**601.4**	**181.7**	**161.0**
Average Global VaR of the Quarter		**401.2**	**154.3**	**117.9**
Minimum Global VaR of the Quarter		**118.0**	**135.1**	**71.9**

Adjusted for tax purposes

VaR - Institutional Treasury

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

VaR - Banking Portfolio

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

R$ million

VaR – Itaú Unibanco – Banking Portfolio			
VaR by Risk Factor Group	**6/30/2012**	**3/31/2012**	**6/30/2011**
Interest rate	177.9	96.6	27.0
Foreign exchange linked	11.9	17.4	34.3
Foreign exchange rates	1.0	3.1	1.0
Price index linked	220.5	20.5	4.0
Variable Income	3.8	4.2	3.7
Diversification effect	(45.6)	(55.4)	(27.7)
Total Global VaR	**369.5**	**86.3**	**42.3**
Maximum Global VaR of the Quarter	**508.5**	**110.8**	**92.7**
Average Global VaR of the Quarter	**336.2**	**86.2**	**64.7**
Minimum Global VaR of the Quarter	**80.9**	**62.4**	**31.1**

Adjusted for tax purposes

VaR - Trading Portfolio

The Institutional Treasury Trading Portfolio acts to build positions aiming at optimizing risk-weighted profit and loss.

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

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

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

R$ million

VaR – Itaú Unibanco – Trading Portfolio			
VaR by Risk Factor Group	**6/30/2012**	**3/31/2012**	**6/30/2011 (1)**
Interest rate	41.8	18.5	15.6
Foreign exchange linked	21.9	9.7	13.3
Foreign exchange rates	16.6	22.0	12.9
Price index linked	9.5	8.2	7.7
Variable Income	19.3	22.7	25.6
Diversification effect	(73.3)	(27.1)	(24.8)
Global VaR	**35.8**	**53.9**	**50.2**
Maximum Global VaR of the Quarter	**112.3**	**85.3**	**82.0**
Average Global VaR of the Quarter	**67.0**	**67.2**	**64.6**
Minimum Global VaR of the Quarter	**25.7**	**47.1**	**50.2**

Adjusted for tax purposes

VaR - Foreign Units

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

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

The Total VaR of the foreign units represents less than 1% of net equity of the institution.

R$ million

VaR – Itaú Unibanco – Foreign Units				
VaR by Risk Factor		**6/30/2012**	**3/31/2012**	**6/30/2011**
Banco Itaú BBA International	Euribor	0.1	0.1	0.2
	Libor	0.6	0.7	0.4
	Foreign exchange rate	0.6	1.1	0.2
	Equities	0.3	0.0	0.0
	Other	0.2	0.0	0.0
	Diversification effect	(0.1)	(0.1)	(0.2)
	Global VaR IBBA International	**1.6**	**1.8**	**0.7**
Banco Itaú Argentina	Fixed income interest rate denominated in pesos (ARS)	2.1	3.1	2.9
	Inflation index linked interest rate (CER)	0.0	0.0	0.1
	Badlar	0.3	0.7	0.3
	Libor/USD	2.0	2.3	0.5
	Euros	1.0	0.3	0.3
	Diversification effect	(3.0)	(4.0)	(1.4)
	Global VaR Itaú Argentina	**2.4**	**2.5**	**2.6**
Banco Itaú Chile	Fixed income interest rate denominated in pesos (CLP)	1.8	1.8	0.8
	Inflation index linked interest rate (UF)	6.1	8.3	1.5
	Foreign exchange - Dollar	1.4	0.4	0.7
	Foreign exchange - Other currencies	0.0	0.0	0.0
	Diversification effect	(3.3)	(1.2)	(1.1)
	Global VaR Itaú Chile	**6.1**	**9.2**	**1.9**
Banco Itaú Uruguay	Fixed income interest rate denominated in pesos (UYU)	0.4	0.4	0.0
	Inflation index linked interest rate (UI)	1.5	0.4	0.2
	Foreign exchange linked interest rate - Dollar	1.7	0.9	0.2
	Foreign exchange rate - Dollar	0.1	0.2	0.0
	Diversification effect	(2.0)	(0.7)	(0.2)
	Global VaR Itaú Uruguay	**1.7**	**1.2**	**0.2**
Banco Itaú Paraguay (1)	Fixed income interest rate denominated in guaranis (PYG)	0.1	0.1	1.0
	Foreign exchange linked interest rate - Dollar	0.2	0.3	0.3
	Foreign exchange rate - Dollar	0.1	0.1	0.0
	Diversification effect	(0.1)	(0.2)	(0.2)
	Global VaR Itaú Paraguay	**0.2**	**0.3**	**1.1**
	Total VaR	**12.0**	**15.0**	**6.5**

Adjusted for tax purposes

Sensitivity Analysis (Trading and Banking Portfolios)

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

The sensitivity analyses of Trading and Banking Portfolios here presented are an ecstatic assessment of the portfolio exposure and, therefore, does not consider the dynamic response capability of the management (treasury and risk control areas) that, once a loss or a high risk related to these positions is identified, initiate mitigating measures, minimizing the possibility of significant losses. In addition, it should be noted that the P&L presented do not necessarily reflect accounting P&L since the study has the sole purpose of disclosing the risk exposures and the related hedging measures taking into consideration the fair value of the financial instruments, dissociated from any accounting practices adopted by the institution.

R$ thousand

Trading Portfolio				
	Exposures	6/30/2012		
Risk Factors	**Risk of change in:**	**Scenario I**	**Scenario II**	**Scenario III**
Interest rate	Fixed income interest rates in reais	(1,003)	(24,937)	(49,594)
Foreign exchange linked	Foreign exchange linked interest rates	252	(6,385)	(12,940)
Foreign exchange rates	Prices of foreign currencies	(8,752)	(218,804)	(437,609)
Price index linked	Price indexes linked interest rates	(336)	(8,349)	(16,580)
TR	TR linked interest rates	371	(9,360)	(18,888)
Equities	Prices of equities	1,116	(27,912)	(55,825)
	Total without correlation	**(8,352)**	**(295,749)**	**(591,435)**
	Total with correlation	**(5,682)**	**(201,207)**	**(402,372)**

Amounts net of tax effects.

R$ thousand

Trading and Banking Portfolios				
	Exposures	6/30/2012		
Risk Factors	**Risk of change in:**	**Scenario I**	**Scenario II**	**Scenario III**
Interest rate	Fixed income interest rates in reais	(3,478)	(86,650)	(172,674)
Foreign exchange linked	Foreign exchange linked interest rates	(944)	(23,313)	(46,058)
Foreign exchange rates	Prices of foreign currencies	2,889	(72,220)	(144,440)
Price index linked	Price indexes linked interest rates	(5,209)	(126,735)	(246,557)
TR	TR linked interest rates	(5,756)	(140,859)	(275,576)
Equities	Prices of equities	4,580	(114,512)	(229,024)
	Total without correlation	**(7,917)**	**(564,287)**	**(1,114,329)**
	Total with correlation	**(5,386)**	**(383,902)**	**(758,113)**

Amounts net of tax effects.

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

- Scenario I: Addition of 1 basis point to the fixed income, FX-linked, inflation linked and interest rate indices linked interest rates curves, and 1 percentage point to currencies and equities prices, which are based on market information (BM&F BOVESPA - Brazilian Association of Financial and Capital Market Entities - Anbima, etc.);
- Scenario II: Shocks of 25 basis points to the fixed income, FX-linked, inflation linked and interest rate indices linked interest rates curves, and 25 percentage points to currencies and equities prices, increasing and decreasing the closing market data, considering the highest loss per risk factor.
- Scenario III: Shocks of 50 basis points to the fixed income, FX-linked, inflation linked and interest rate indices linked interest rates curves, and 50 percentage points to currencies and equities prices, increasing and decreasing the closing market data, considering the highest loss per risk factor.

Backtesting

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

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

In order to illustrate the reliability of risk measures generated from the models used by Itaú Unibanco, we present below the backtesting graphs of the total Banking Portfolio and the fixed income interest rate risk

factor, in order to be the most relevant risk factor of this portfolio, as well as the backtesting of the total Trading Portfolio. These analyses are performed based on the period of the last 12 months and consider in general the most relevant positions for both portfolios.

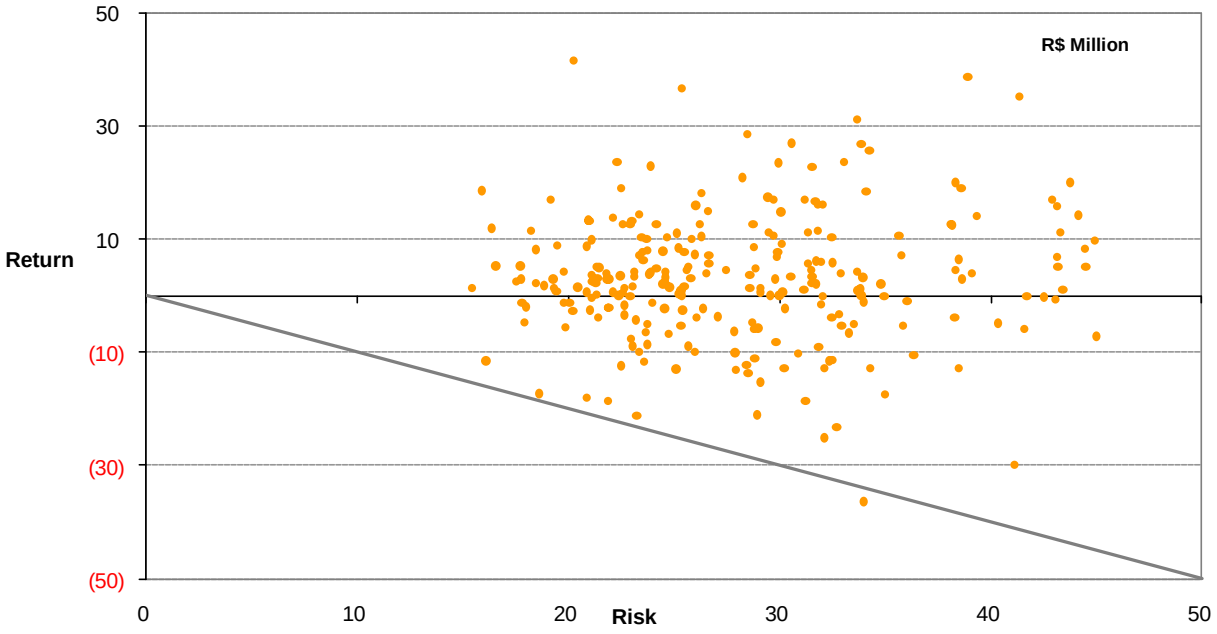
Due to the limited importance of the VaR amounts of the international operations, the following backtesting analyses refer only to the portfolio related to domestic operations.

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

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

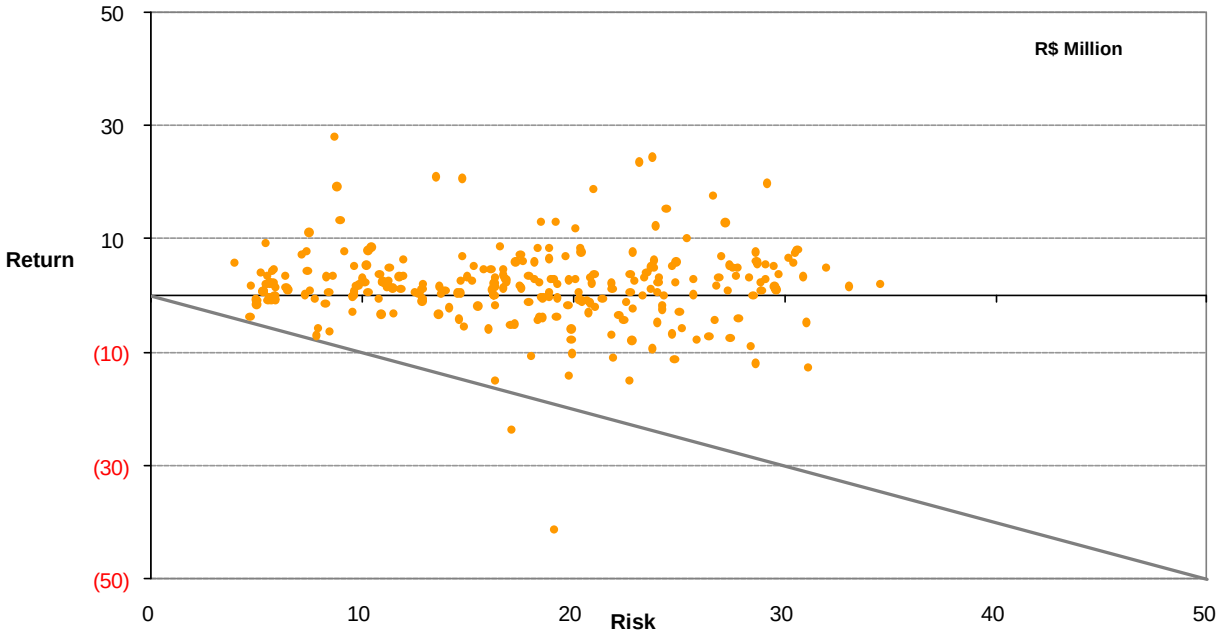
For the global VaR of the Banking portfolio of the Institutional Treasury, financial losses exceeded the VaR estimated by the model on only 1 day in the period, the backtesting of this portfolio is in the green range.

Backtesting – Global Risk of Banking Portfolio - Institutional Treasury



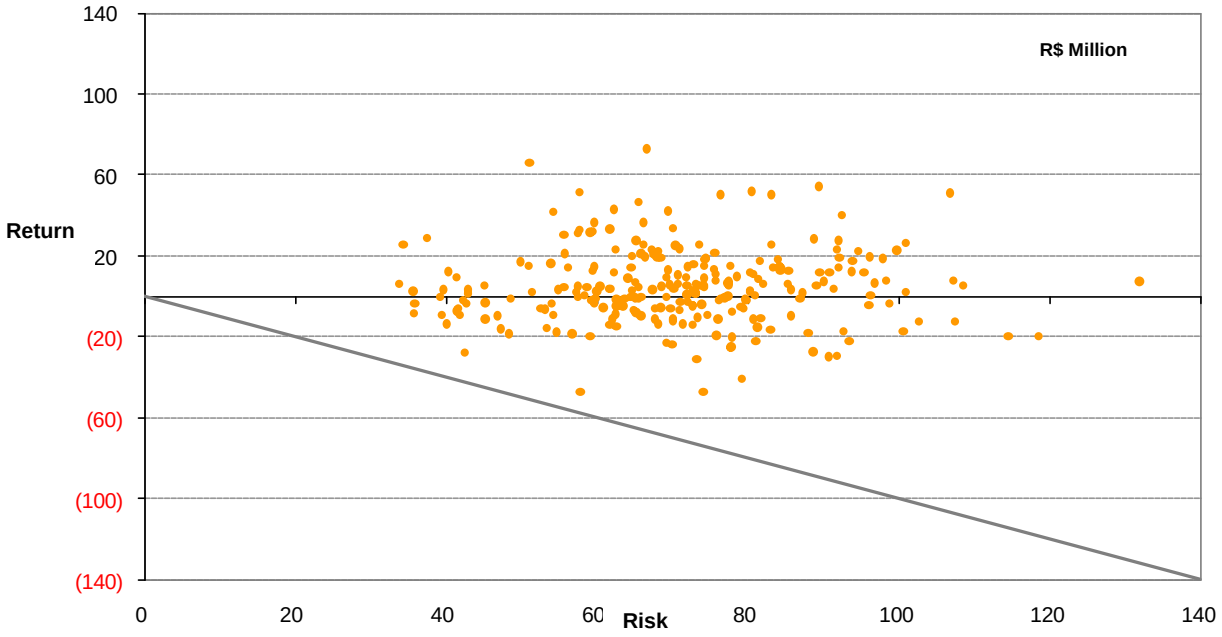
For the fixed income interest rate risk factor of the Banking portfolio, financial losses exceeded the VaR estimated by the model on 2 days in the period, the backtesting of this factor is in the green range.

Backtesting – Fixed Income Interest Rate Risk Factor – Banking Porfolio



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

Backtesting – Global Risk of Trading Portfolio - Institutional Treasury



3.4 Operational Risk

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

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

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

R$ million

Operational Risk Exposure						
	Financial system consolidated			Economic-financial consolidated		
	6/30/2012	3/31/2012	6/30/2011	6/30/2012	3/31/2012	6/30/2011
Regulatory portion required for operational risk coverage (POPR)	**3,963**	**3,963**	**3,073**	**4,394**	**4,394**	**3,435**
Retail	607	607	521	607	607	521
Commercial	958	958	866	958	958	866
Corporate finance	88	88	74	88	88	74
Negotiation and sales	1,691	1,691	1,013	1,691	1,691	1,013
Payments and settlements	272	272	264	272	272	264
Financial agent services	139	139	119	139	139	119
Asset management	192	192	194	192	192	194
Retail brokerage	16	16	21	16	16	21
Business plans	-	-	1	-	-	1
Conef additional	-	-	-	431	431	362

3.5 Methodology for Determining Risks Not Covered in the PRE

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

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

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

3.6 Requirements for Regulatory Capital Allocation

Basel II

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

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

BACEN disclosed the following regulations with rules and terms for the use of internal models for market and credit risks and the public hearing notice for operating risk: Circular Letter No. 3,478, Circular Letter No. 3,581 of March 8th, 2012 and the Public Hearing Notice No. 39 of December 29th, 2011, respectively.

Internal Models

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

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

The risk management structure was also reviewed so as to reinforce the separation of business, management and control activities, ensuring the independence of the areas and, consequently, sensible decisions regarding the risks incurred, fully meeting the requirements of CMN Resolutions No. 3,380, 3,464 and 3,721 to operational, market and credit risks, respectively.

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

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

Convergence of Basel II with Proprietary Models

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

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

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

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

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

Basel III

Approved by the members of the Basel Committee on Banking Supervision during the G20 Summit held in Seoul in September 2010, the Basel III Accord was signed to strengthen the soundness of financial institutions and improve the ability of the banking industry to absorb shocks arising from crises and stress scenarios as those seen during the last global financial crisis.

In Brazil, BACEN Release No. 20,615 of February 17th, 2011, published the general guidelines regarding the Basel III Accord. Later, BACEN published the Public Hearing Notice No. 40 of February 17th, 2012, among which we can highlight the new capital definition and its requirements and the creation of a new consolidation center, covering, mainly, financial institutions and similar.

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

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

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

4 Sufficiency of Capital

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

On June 30th, 2012, our PR reached R$102,519 million, an increase of R$8,568 million when compared to March 31st, 2012, mainly due to the approval, by BACEN, for subordinated debts amounting to R$6,095 million to compose the Tier II of the PR. When compared to the same period of the previous year, the PR increased R$17,802 million.

R$ million

Composition of PR	Financial system consolidated			Economic-financial consolidated		
	6/30/2012	3/31/2012	6/30/2011	6/30/2012	3/31/2012	6/30/2011
Tier I	**74,702**	**72,113**	**65,619**	**75,267**	**72,860**	**67,327**
Tier II	**27,561**	**21,124**	**17,482**	**27,561**	**21,124**	**17,482**
Exclusions: Funding instruments issued by financial institutions	(309)	(33)	(92)	(309)	(33)	(92)
Referential Equity (PR)	**101,954**	**93,204**	**83,009**	**102,519**	**93,951**	**84,717**
Required Referential Equity (PRE)	**67,402**	**65,638**	**57,756**	**66,676**	**64,331**	**57,712**
Excess capital in relation to Required Referential Equity	**34,552**	**27,566**	**25,253**	**35,843**	**29,620**	**27,005**

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

The BIS ratio reached 16.9%, up 80 basis points from March 31st, 2012, mainly due to the approval, by BACEN, for subordinated debts amounting to R$6,095 million to compose the Tier II of the PR. If we took into consideration the other issuances that are pending approval of the BACEN, amounting to R$1,777 million, our BIS ratio would reach 17.2% (effect of 30 basis points).

The BIS ratio of the financial system consolidated reached 16.6% on June 30th, 2012. The difference between the BIS ratio of the financial system consolidated and that of the economic and financial consolidated arises from the inclusion of non-financial subsidiaries in the economic and financial consolidated and the funds of which can be distributed to financial companies by means of the payment of dividends/interest on capital or corporate restructuring.

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

R$ million

Basel and Fixed Asset Ratios	Financial system consolidated			Economic-financial consolidated		
	6/30/2012	3/31/2012	6/30/2011	6/30/2012	3/31/2012	6/30/2011
Basel ratio	**16.6%**	**15.6%**	**15.8%**	**16.9%**	**16.1%**	**16.1%**
Tier I	12.1%	12.1%	12.5%	12.4%	12.5%	12.8%
Tier II	4.5%	3.5%	3.3%	4.5%	3.6%	3.3%
Fixed assets ratio	**40.2%**	**45.0%**	**48.6%**	**14.3%**	**14.1%**	**14.5%**
Excess capital in relation to fixed assets	9,997	4,661	1,123	36,610	33,751	30,035

Circular No. 3,568, of December 21st, 2011, changes the provisions of Circulars Nos. 3,361, of September 12nd, 2007, 3,388, of June 4th, 2008, 3,389, of June 25th, 2008, 3,478 of December 24th, 2009 and 3,498, of June 28th, 2010, which set forth the procedures for calculation of the portion related to market risk. The new calculation method will be adopted gradually from January 1st, 2012, taking into account that it shall be fully employed from December 31st, 2012. Should the new rules already be applicable, the ratios would be reduced by about 0.3%.