INTERNACIONAL CONFERENCE CALL
ITAÚ UNIBANCO HOLDING S.A.
Second Quarter 2012 Results
July 25, 2012

Operator: Ladies and gentlemen, thank you for standing by. We inform you that this conference call aims exclusively to discuss the earnings results of Itaú Unibanco Holding regarding the second quarter of 2012. Queries related to Redecard's Public Offering shall be addressed to the Investor Relations division of Itaú Unibanco Holding.

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

Before proceeding, let me mention that forward-looking statements are being made under the safe harbor of the Securities Litigation Reform Act of 1996. Actual performance could differ materially from those anticipated in any forward-looking comments as a result of macroeconomic conditions, market risks, and other factors.

With us today in this conference call in São Paulo are **Alfredo Egydio Setubal**, Executive Vice President and Investor Relations Officer; **Sérgio Ribeiro da Costa Werlang**, Executive Vice President of Risk Control and Finance; **Caio Ibrahim David**, Chief Financial Officer; and **Rogério Calderón**, Corporate Controller & Head of Investor Relations.

First, Mr. Alfredo Setubal will comment on the second quarter 2012 results.

Afterwards, management will be available for a question and answer session.

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

Mr. Alfredo Setubal: Hello. Good morning for those in US and good afternoon for those who are in Europe. It's a pleasure for us to be here again to speak about our second quarter results for 2012. For those who are following through the Internet we are starting on page 2, on slide number 2, the highlights. The first highlight is the result, recurrent result, recurrent income R$ 3.6 billion in the second quarter, what means a ROE annualized of 19.4. This means an increase of 8.1% when we compare to the second quarter of 2011. For the full year of 2012 the net income achieved R$ 7.1 billion within of ROE of 19.7. This result means an increase of 2.5% when we compare to 2011.

The second highlight is the loan portfolio that we are going to speak more deeply in the coming slide, but anyway, we achieved R$ 432 billion in credit, here including endorsements, securities and private security that we held in treasury of large companies, this means a growth (including all this) 3.6% growth when we compare to March 2012, and 15.2 when we compared to June 2011.

The third highlight is related to our financial margins with clients. The financial margins with clients achieved R$ 12.3 billion in this quarter, the net interest margin with the clients decreased 30 basis points, achieving 10.9%, especially because of the impact of the reduction of the Selic rate that the Central Bank is doing in the last COPOM meeting during the year since last August, when they started to reduce the Selic rate.

The credit spread remained almost flat, within a small reduction of 10 basis points, achieving 13.4%, and when we look at the risk-adjusted credit spread (net spread) also an increase of 10 basis points, achieving 7.5% in this quarter.

In the fourth highlight, related to our banking fees and result from the insurance pension plan and capitalization business, these operations grew 0.6% in the second quarter when we compare to the first quarter of 2012, achieving R$ 5.8 billion in the period. When we compare to last year we see an increase in this revenues and results of 11.5%.

The fifth highlight is related to our non-performing loan ratio and loan losses. Our expenses net of credit recovery achieved R$ 4.9 billion in the second quarter, the 90-day… the total provisions created in this quarter achieved R$ 6 billion.

The 90-day NPL achieved 5.2% in the second quarter with a 10 basis points growth quarter-on-quarter and 70 basis points when we compare to June 2011, and we are going to talk more about this in the coming slides also.

The sixth highlight is related to our non-interest expenses. The growth in the quarter is 3.2 and when we compare 12 months 5.8, in line with what we expected that is a reduction in the pace of growth of expenses during the year.

Seventh highlight is related to efficiency ratio. Efficiency ratio in this quarter increased 50 basis points and this ratio reached 44.8%, what means up to 280% increase compared to the first half of 2011.

In the last 12 months our efficiency ratio reached 45.9, what means an improvement of 330 basis points, also in line with the expectations that we have for this year.

And the last highlight is related to our unrealized gains. We have R$ 5.8 billion in unrealized gains and from this 1.5 billion is related to… from our available for sale portfolio of securities.

Going to the slide number 4, we have here our results. The total recurrent net income R$ 3.6 billion, net income 3.3, the differences related essentially to the sale of our position, our stake on BPI in Portugal through La Caixa of Barcelona.

More details here we can see the operating revenues of R$ 20.2 billion, an increase of 1.8% in the quarter and 12.2 when we compare to June of last year. We can see here the financial margins with clients, as we already talked in the highlights, a decrease in the quarter of 0.1%.

Margins with the market, an increase of 18.4 in the quarter, achieving R$ 1.1 billion and an increase of 28.3% in 12 months. Here are more related to our structural positions and also for a better quarter for the market, especially for fixed income. And we can see also banking fees of R$ 5 billion, an increase of 1.5% in the quarter.

Results from insurance R$ 1.4 billion, an increase of 0.3, when we compare 12 months almost 17%. Good news came from loan losses and retained claims; our expenses for loan losses were a little bit lower than in the first quarter, we had an increase of 0.7%, achieving almost R$ 6 billion here, what was good, because it was in the lower range of the balance that we provided at the end of the second…of the first quarter when we announced the expectations for losses for the second and third quarter. So, here it was a better number, better… for us was good news also.

Recovery, a little bit lower also, when we compare to last quarter, 5.6% lower, lower in terms of recovery of credit. Operating expenses, as I said, we continue to be very focused on controlling the noninterest expenses and the growth of this line, when we see 12 months it was 5.8%, it was a good number for this line.

Slide number five, we can see here more visual highlights. Operating revenues totaled of R$ 40.2 billion, an increase of 12.2% year over year. Loan losses, provisions, expenses, the total for this first semester is R$ 12 billion, an increase of 26.7 when we compare to the first quarter… the first semester of 2011. Non-interest expenses 5.8, as I mentioned, and recurrent net income 7.1 billion, an increase of 2.5% when we compare to the first semester of 2011.

On page… slide 6 we can see here the net interest margin with declines, with a decrease, as I mentioned, of 50 basis points, achieving 11% when we compare 12 months and 30 basis points when we compare to the first quarter of 2012. Banking fees, an increase of 11.5% in the quarter (including here the results from the insurance business) and our ROE 19.4% in the quarter, a little bit lower than the 20% of the first quarter 2012, and when we compare 12 months, 19.7% lower than the almost 22% that we showed in the first quarter… in the first semester of 2011.

On page 7 we can see the financial margin. As I mentioned in the highlights, a small reduction of 10 basis points in the gross credit spread, achieving 13.4%, when we see the asset line, when we can see the risk adjusted NIM with these clients, also a reduction - achieving 6.6% of reduction, so we continue to see a trend of some reduction here related to the reduction of the Selic rate and also the spread.

On slide number 8, we see some other highlights related to our balance sheet. Assets, we had a decrease in this quarter, a decrease of 0.9%, especially related (this decrease) of the reduction of the portfolio of the vehicles financing. So we had this reduction and a lower pace of credit growth in this period.

Stockholders equity (only by capitalization of profits) increased 4.3%, achieving 75.6%. The loan portfolio (here only… not including the securities of large corp that we hold on our treasury book), so the number is R$ 413 billion, an increase of 3.2% in this quarter compared to the first quarter. And funding, total deposit AUA with clients R$ 942 billion, an increase of 1.8.

On page 9, we can see more details about our loan portfolio, when we see by the type of line and products that we have. So the total of 413 billion, 147 billion is related to individuals. We see that during this quarter we had a decrease of 0.2% on the credit related to individuals, mainly because of the reduction that we are doing in our car financing business. During this quarter we reduced the portfolio of car financing in 4.2%, and also a reduction when we see the 12 months almost 6%. So this is part of our strategy to reduce a little our exposure in the car finance in the local Brazilian market.

But when we see the other line (credit cards and personal loans) we see a good growth when we compare to the first quarter, and mortgage that continues to be strong, almost 8% growth in this quarter and 43% when we compare to last year. So individuals, the main issue here is related to car finance, that we are going to give you more details in the coming slides.

When we see the number related to companies, we can see that we showed a growth of 4.3% year, we achieved R$ 241 million. Corporate increased 5.8 in the quarter and here we have an impact of the devaluation of the Real against the Dollar in our credit portfolio, denominated in dollar currency.

When we see this is Very Small, Small and Middle Market, we continue to be selective here since the middle of last… the beginning of last year. So we continue to have in a small pace of growth when we see this portfolio, in 12 months the growth was only 6.3% and in the quarter 1.9%.

We have some growth in the *Mercosul* countries (that we have corporate and retail operations), the growth of the credit portfolio was 14.8 in the quarter, here because of we have more activity of corporate business in Chile, and also because of the devaluation of the Real related to the Dollar.

On slide number 10, we can see more details about our credit ratios. The credit ratios for the total portfolio increased 10 basis points, achieving 5.2%. We can see here a decrease in the NPL over 90 days for companies, we reduced this from 3.7 to 3.5, and we see an increase also in the portfolio of individuals that increased from 6.7 to 7.3.

Here we have also an impact of the increase of the delinquency in car vehicles at the same time that this portfolio is reducing. So this reduction of the portfolio caused an impact in the credit ratio for individuals, the total ratio for individuals in terms of credit.

The good news on this chart beside; when we see 15 to 90 days NPL ratio we can see that both for individuals and for companies these numbers are much better. What we can expect a lower NPL creation for the coming quarters if this trend continues in the coming quarters. The total portfolio… the total balance of provisions is 27.1 billion at the end of this first semester.

On slide 11, we can see our delinquency for the vehicles, car financing portfolio. We can see from a long period of time of monthly granting of credit, we can see Itaú Unibanco line in red in the markets without Itaú Unibanco in black, and we can see that we had some periods (at the beginning…at the end of 2010 and beginning of 2011) that our numbers were worse than the industry, and this is what we are making provisions now and the last quarter, (first in the second quarter of 2012, more specifically), but with the measures that we took at the beginning of last year, when we saw this trend. We have now, a much better ratio when we compare to the market.

So also this gives us much confidence that we took the correct measures to avoid worse problems related to this credit portfolio, and what we're seeing in these quarters (that we will continue to see in the coming quarters) is more related to the credit granted in the past. When we see this (the credit granted to the end of such year) we can see much better numbers and positions.

On slide 12, we can see other numbers related to the measures that we took, related to this vehicle portfolio; the reduction in the number of payments that we did. We have now 42 months in terms of payment and, also, in the orange line the average down payment that increased from 28% to 35%, so the value of the collateral is much better now in this situation.

We see on the chart below, that we reduced very deeply the 60-month term of no down payment. And on the chart at the right side, we see what we expected in terms of trend because of these measures and because of these much better numbers that we have in terms of delinquency. What we expect in the coming two quarters of the second semester, in terms of loan losses provisions for these credit line. So we can see a much better trend in terms of provisions for car finance.

On slide 13, we can see all the funding and all the proprietary capital, subordinated debt and AUM that we have, the total is R$ 1.2 trillion.

On page 14, no problems in terms of funding for the growth of the credit portfolio, we have room to continue to grow; deposit is not an issue here in Brazil of funding the credit portfolio.

Slide 15, banking fees and insurance results. Twelve-month growth of 11.5%, in line with the numbers that we provided. And here we can see also that we had the impact of the Orbital that we sold; we don't have more revenues from Orbital in terms of processing, so this company was provided.

On slide 16, non-interest expenses, as I said, we continue to be very focused on this, and we are very optimistic that we continue to reduce the pace of the growth of these non-interest expenses. In 12 months the growth was 5.8%, in the quarter 3.2. We continue very optimistic that we are going to reduce even more this.

On slide 17, our managerial composition of net income, we can see in the second quarter that the commercial bank was responsible for 32% of our net income, Itaú BBA 17%, insurance 14%, consumer credit 8, an our market activities and corporation (in our…means the use of the excess of capital that we have) 29%.

In terms of PIS ratio, we have 16.9%. We can see in the chart beside the composition of the reasons of the growth (where this growth came) and also we have the approval of the Central Bank today that…of a Tier ll issue of 1.7 billion subordinated debts. So our number, today, is higher than this, 17.2% because of this approval that pending in the Central Bank.

On slide 19, our market capitalization that decreased during last year/this year (because of the financial pre-crisis in Europe, in Brazil, in the US, so the bank shares suffer a lot in all these markets), and our market capitalization also achieving R$ 127 billion by the end of the semester, and our shares continue to have more liquidity in the New York Stock Exchange. The total liquidity is R$ 751 million per day, what is a good number.

On slide 20, we have some news expectations for 2012. The first conference call of the year (when we released the first… the results for 2011) we said that our expectation for credit growth was 14 to 17%, now, with the revision that we did (because of the measures that we took and are taking in our credit portfolio) we expect our credit portfolio to grow at 10% this year, especially because we are decreasing our credit portfolio in car financing from R$ 50 billion by the end of 2011 to 50 to R$ 52 billion in this segment. So this impact of the growth of our total portfolio. If we don't consider vehicles, we expect the growth of 13 to 15% for the whole year of 2012. So we are reducing our expectations in terms of credit growth.

In terms of NPL, we (at the beginning of the year) expected the NPL to be stable. In the conference call (the first quarter) we changed to show the loan loss expenses, instead of NPL. And this also…we are reducing our expectations of loan loss expenses provisions (expenses that will be created in the third and fourth quarter). So third quarter now we expect the loan loss provision to be between 6 billion and 6.5 billion for the third quarter, and 5.7 billion and 6.2 for this fourth quarter of this year.

In terms of fees and results for insurance, we are keeping our 10 to 12% growth for the year. Non-interest expenses, also, we are reducing, we expect now the growth with expenses to be between 3.5 and 6.5% for the whole year.

And even with this difficulties to increase the revenues line (especially because we are going to grow less than expected in terms of credit, but anyway, because of the good numbers in terms of expenses), we are maintaining our 200 to 300 basis points reduction improvement in the efficiency ratio.

The final slide is related to our new JV (that we announced with Banco BMG). We are creating a new bank, where Itaú Unibanco will keep 70% of the share and Banco BMG (that will continue to make its operations) will have 30%, the total capital… the initial capital for this new venture is R$ 1 billion and we (with this new venture) will have the 70% of the creation of a payroll credit that Banco BMG will sell to this new venture. We expect this venture to achieve R$ 12 billion in terms of payroll credit in two years.

So this is in line with the strategy of changing a little the mix of credits of Itaú Unibanco (especially related to the credit of individuals) we expect now this payroll business to grow and help us to reduce the dependency in car financing and credit cards (that are businesses that are very good – they will continue to be good - but of course, more risky, and we want to reduce the risk of our credit portfolio in the coming years), so this BMG deal was in line with this strategy that we announced, from quarters ago, that we are going to grow in this direction of changing the mix of our individuals credit portfolio.

So this finishes the first part of our conference call and now we are all here opened to answer your questions about this quarter and the trends for the coming quarters. Thank you.

Q&A Session

Operator: Excuse me. Ladies and gentlemen, we will now begin the Question and Answer session. If you have a question, please press the star (*) key, followed by the one (1) key on your touch-tone phone. If at any time you would like to remove yourself from the questioning queue, please press star (*) two (2). Ladies and gentlemen please restrict your questions to two at a time.

Operator: Our first question comes from Mr. Daniel Abut with Citi.

Mr. Daniel Abut: Good morning. A couple of questions. Alfredo, in the prior conference call you did say that even though this year was going to be subpar in terms of earnings growth, even the significant increase in provisions that you have seen, particularly in the first half but to some extent in the second half as well, but you still expected some low single digit earnings growth for the year as it called and, so far, in the first half we are believing that.

You explained in page 5 that if we look at the net income (recurrent net income) for the first half of the year is showing 2.5% growth compared to the first half of 2011. Do you still feel comfortable that this kind of low single digit earnings growth for the year as it called remains, you know, a realistic assumption (particularly given the more encouraging trend that you are starting to see on the asset quality side)?

And the second question on expense growth: given that you have lowered the guidance for expense growth this year, and given the progress you are making on your efficiency improvement program (even that that program lasts at least through the end of last year) is this the level of cost growth that we should expect for this year as well…for next year as well? Or is there something more concentrated in this year (in terms of your cost effort) that doesn't necessarily translate into the way that your expenses are going to behave next year?

Mr. Alfredo Setubal: Hello Daniel. Yes, we expected some low single digit growth for the year, that's the number…that's the expectation that we had. Of course, due to the conditions (especially, also, because we continue to have some growth, some bigger numbers in terms of NPL and expenses creations for loans losses), of course we cannot expect a big increase in terms of results, but we still expect some growth for the results.

We continue to work well in terms of expenses, we continue to see some growth in terms of credit portfolio so, one by the other we…our budget is to see some growth in terms of results. But we have to see especially the trend related to our provision for loan losses. I think the biggest driver for this is the line of provisions that we will have: how much we will have to make in this second semester.

But we don't see big changes in the scenario related to the economy; we still expect the economy to be in a better shape by the end of the year and next year, so we don't see any employment growing.

So the scenario that we're seeing is a better scenario. Of course we have some uncertainties coming from… especially from Europe, of course it is unpredictable what can happen in Europe and what (if something bad happens there) what will be the real impact in the Brazilian economy, but anyway, for what we can see we are confident that the results will be in a good line and probably within the small growth when we compared to last year.

Mr. Rogério Calderón: I can take the second one Alfredo. Rogério speaking, Daniel. You asked about the pace for expense growth next year and the pace we are posting now is sustainable for next year. We have a long-term view in terms of expenses growth; we drive the bank in order to keep expenses growing in line with inflation in order to have all the productivity benefits we have, in order to fund the organic growth of the bank.

So we do believe that we will be able to keep the same pace of growth in terms of expenses for next year, and we do reaffirm that we have conditions to reach the expectation we have in terms of the efficiency ratio. Of course it's important to remember that the level of top line growth is an additional challenge here, but the bank is going to the right direction in terms of gaining efficiency, so we are going to be (if not at 41) we are goint to be pretty close to 41 as we had established before.

Mr. Daniel Abut: For this year a 3.5 to 6.5 is not an outlier, that is kind of the pace that you think not only next year but longer-term you would like to keep, as inflation is likely to fall somewhere in between that range? And that you still feel comfortable getting close (if not hitting) the 41% gross income ratio by the end of next year?

Mr. Rogério Calderón: Absolutely.

Mr. Daniel Abut: Thank you Rogério.

Operator: And our next question comes from Mr. Carlos Macedo with Goldman Sachs.

Mr. Carlos Macedo: Good morning gentlemen. Thank you for the opportunity to ask questions. I have a couple of questions that are a little bit of a follow-up to Daniel's questions on efficiency, so I'll go first with the more difficult part of equation which is the margins. Margins dropped again in the quarter, of course the base rate (the Selic) going down has an impact in your margins, the question is: Rogério, I think in the previous call you mentioned that you still expected margins to increase by something like 12% this year versus last year because of the hedges that you have against lower rate. Does that expectation is something that you still have? A 12% increase in net interest income in 2012? If it is not, given the results for the quarter (I think now you are today…you are growing at 10), should we expect that improve going forward despite rates being lower?

And the second question is, again, regarding expenses, and particularly headcount. The headcount dropped below 100,000 for the first time since the merger. Is there more cutting to be done? Or will your lower headcount come further or will additional gains in efficiency (from that perspective) come from, for instance, shifting back office away from São Paulo, which is a very expensive location, or other things like that?

Mr. Rogério Calderón: Ok Carlos. We have reviewed the expectations for credit growth. We have now an estimate of credit growing around 10%, when you include auto loans inside is 13 to 15%... auto loans, as you know. So, we believe that the contraction in terms of spreads is still in a slow movement but we do see some contraction in origination, particularly because of the mix, particularly because we are driving the bank to a lower risk type of credit, and because of that we have an expectation that the top line should grow below 10%, slightly below 10%.

Regarding your question on expenses, we had an important impact in the second quarter 2012 because of the selling of Orbital. So a portion of the headcount reduction is due to the selling of Orbital, as well as the cumulative figure includes some reductions on partnerships, etc. that reduced our headcount.

Looking forward, we do have some perspectives of keeping… gaining efficiency, taking into consideration the opportunities we have in terms of normal turnover of the bank, it's pretty important to highlight this point, particularly at this point of the year, because what we're doing is actually, you know, capturing benefits out of the normal turnover of the bank. Every time we can keep doing the same level of business we without replacing people, we take this advantage and we capture this benefit. We should keep doing this thing.

Mr. Carlos Macedo: So, you would take advantage in attrition in order to not hire, but just hire selectively as to replace. Are there other things that you can do (if you could give us some color) in order to achieve this very low, you know, inflation rate of pace of growth, given that volumes will be growing faster than inflation? What is in the pipeline that could be done so that we can, at least, have some comfort that you will be able to achieve this?

Mr. Rogério Calderón: So, lots of initiatives, you know the Project Efficiency. So we have lots of synergies capturing, we have a base effect (remember that we have, as you mentioned, we have a lower headcount now), so we have on one hand the new labor agreement to come, but on the other hand we have a lower level of headcount due to the normal attrition, as you mentioned. So we do have a now budgets, all the conditions to post inside the range we just supplied to you and we are pretty confident that we are going to do so.

Mr. Carlos Macedo: Including next year, as you said (around inflation next year) right?

Mr. Rogério Calderón: Yes. Long-term view is expenses growing in line with inflation and every additional improvement or increase in our activities should be funded by the gains we have in efficiency.

Mr. Carlos Macedo: Ok, thank you Rogério.

Mr. Rogério Calderón: Thank you.

Operator: Our next question comes from Mr. Saul Martinez with J.P. Morgan.

Mr. Saul Martinez: Hi, good morning guys. I have to say I'm a little bit surprised by the response to the cost question: my understanding was that you…that the target was really to improve the efficiency ratio, as opposed to targeting a certain number of…a certain percentage cost growth and inflation. Is something changed?

Because it seems if volumes peak up at some point and you do start to see a better topline, wouldn't it be more… wouldn't it be better to invest in your business and try to capture that growth even if cost growth is a little bit higher in an environment where revenue growth starts to peak up enhance, if you could invest in your business and still grow, and still grow your cost pace a little bit as long as it's growing below inflation you get the operating leverage?

But it seems to target inflation in an environment improves, perhaps, you know, the economic environment improves and topline improves, I don't know on surface it seems to be a little bit short-sided. Has something changed in terms of how you are thinking about the cost? I always thought it was 200 to 300 basis points the improvement that you are targeting, as opposed to select percentage growth figure.

Mr. Rogério Calderón: No, nothing changed, Saul. Rogério speaking. Sorry if I gave you a different perspective or a different conclusion out of what I just said. Our long-term perspective is, of course, taking into consideration the normal business but our preference is, of course, is investing, growing and all what we have behind the tariffs of the bank remain on efficiency, not in cost cutting, definitely.

Mr. Saul Martinez: Ok. But inflation figure you gave us assumes a certain growth in your topline in the coming years that is similar to what you growing today?

Mr. Rogério Calderón: Yes. Actually, it's expected the country and all the environment should improve and we expect that next year, for next year, we could be growing in a higher level. And the mention I made in terms of inflation is a sort of an overall perspective we have in long-term. But what we are going to do is taking all the opportunities to keep growing. Of course, it's not a barrier to keep or to prevent from growing because of the tariffs on cost. What is driving the bank is definitely efficiency.

Mr. Saul Martinez: Ok, fair enough. Follow-up question on your expectations for financial margins; (I think you addressed it but) your NIM from spread since the transaction it's been very resilient, you know, and we have seen a pretty sharp reductions in lending spread (according to the Central Bank data). Can you talk a little bit more in detail about what your expectations are there? You mentioned you expect a little bit of a decline, but why (and part of that is a mix) shouldn't we see a broader decline that really compresses your margin if new origination is been done at much lower spread?

Mr. Sérgio Ribeiro da Costa Werlang: Saul, it’s Sérgio. I'll comment a little bit on the Central Bank data and I’ll pass on to Rogério. The central bank has two measures of spread: one is not very well known and it's published in the financial stability report and it's quite comparable to our net interest margin, and it has some much smoother behavior than the other one, which is more, let's say famous in this monthly release.

The other spreads have been created (this other measure which, as you mentioned, has shown sharp reductions), it has been created in 1999. Now, it turns out that the mix of products that the market now has is quite different from the mix of products which is considered under this basis of the Central Bank.

Let me give you two examples, just to illustrate the point: by then, in 1999, a real estate loans for individuals were actually at a quite low level in the economy; so it was decided not to be included.

Another portfolio (which was not very large) was some BNDES loans that is given through the financial sector and which became quite important. And these two have very, very small spreads, which oscillate, you know, quite…they have quite small oscillations. What I mean is the following with this introduction: you should not use the big number that is released monthly by the Central Bank, in terms of fall of spreads, to imagine that this will have an immediate one-to-one impact on the balance sheet of the financial sector as a whole.

Mr. Saul Martinez: That is helpful.

Mr. Rogério Calderón: Saul, just complementing a little bit (Sérgio has mentioned a lot in terms of the average of these spreads), particularly I just want to add - if you look particularly on a specific segment - auto loans for instance, what we have is a reduction, first of all, what you see in the data from the Central Bank is origination. Remember that we are more selective, so we are originating lower level of risk in our portfolio, and as a consequence, of course, the spreads are lower, does not mean that the final contribution is going to be lower, but it does mean that the net or the gross spread is lower at the origination. It takes some more time because of the replacement of the portfolio, as you know.

So the NIM we showed in our statement of income is actually a consequence of our stock (and not out of our origination) that is…it does reduce. But reduces because of mix, because of some specific things like in auto loans again the commissions to the car dealers have been reduced, so at the end of the day, it does not impact the profitability of the bank, but it represents a reduction on the spread for the final consumer.

I also want to remind you that we have made a very important shift in terms of the mix of our personal loans. We are now originating much more payroll discounted type of credit; what drives the spread down but does not remove any profitability or, much on the contrary.

Mr. Saul Martinez: Ok. So I guess if I look at the spread on credit trends just comes from like 12 in the end of 2010 to like 11, 10.9 now. Is that the kind of compression that you see a gradual compression of about a percentage point in a year? Would that be a reasonable assumption to kind of use for the rate of compression in your lending spreads?

Mr. Rogério Calderón: Yeah, it's a similar pace. Of course, when we have some acceleration in the credit origination it could accelerate a little bit. But we don't think it's going to be a major change. We do believe that it will take some years and this (from our perspective) will give us enough time to reduce the level of provisions we have in relation to the topline. Remember that now we have the worse picture because we are moving from higher year risk to lower risk but still posting the consequence of the higher risk portfolio originated some time ago. So with this time change, we could be benefiting out of this change.

Mr. Saul Martinez: Ok, I got it. Thank you.

Operator: And our next question comes from Mr. Mario Pierre with Deutsche Bank.

Mr. Mario Pierre: Hello everybody. Let me ask you two questions. The first one on your NPL ratio; you did do a good job showing to us that the increase in the NPL and the individual segment was primarily related to the auto portfolio, and primarily related to the slowdown in the loan book. But I was wondering if you can provide us any color on how your other portfolios are performing (in particular credit cards)?

And also how comfortable do you feel with the help of your corporate portfolio (I know that you showed an improvement on your overall corporate portfolio but some of your peers are having some problems), so I was just wondering if you think that the problems that we are seeing at the other banks is specific or do you think that this could become a concern for the industry as a whole? And then I'll ask you my second question later.

Mr. Rogério Calderón: Hey Mario, Rogério speaking. We have…this NPL increase in over 90 days is a consequence of mainly two factors (or almost everything coming from this one); we had some increase in the level contributed by personal loans because of the acceleration we did in the past (so this is a mix change), and we do have this increase of auto loans, as you mentioned, I just remember that all of these movements are included in our expectation just released positively on a lower level of expenses for bad debts in the coming quarters.

When looking at the companies, we had a decrease of 20 basis points in the portfolio of companies. This decrease was observed in the both lines, small companies and corporates. Both had the same level, as you mentioned the peer, (of course are not going to comment on this), but I just want to reaffirm that we look at the SME with a different perspective. We name SMEs here at Itaú Unibanco companies with revenues limited to R$ 250 million, what is different from some of the other competitors, but in both case we don't have any negative movement, both are improving at the same level - 20 basis points.

Two additional data are important to analyze the future of this NPL (particularly on individuals), we see two very positive indicators; the early delinquency 15 to 90 days is actually (in a lower level) decelerating from the over 90, this is a consequence of the decisions that we took before - so more selective and of course we are originating better quality of credit and, as time goes on, we have a better performance of the delinquency in our portfolio.

The other important indicator showing improvement is the NPL creation. So the level of NPL creation has reduced from first quarter to the second quarter and we do believe that this new level reached is the stable level. So we should see a more resilient level of NPL creation in the coming quarters at a lower level than what we showed in the first quarter.

Mr. Mario Pierre: Ok, that's clear. My second question is related to the negotiations, your annual negotiations with the labor union. I read here in the local press that the unions are asking for 10% increase in wages this year. Is this the type of increase that you have baked into your forecast when you gave your expense growth of 3.5 to 6.5%?

Mr. Rogério Calderón: Mario, yes this is all included in our expectation for efficiency ratio and expenses. We do have some expectations that are contemplated in our budget. Let's wait and see.

Mr. Mario Pierre: Ok, so… I would imagine that, normally, you know, the Union asks for a big number and then you, eventually, are able to reduce this more in line with inflation…

Mr. Rogério Calderón: Yeah. In our budget we have a lower level than what they had initially asked for, and normally, if you look at the history of all the negotiation, normally the first initiative from the Union came in a higher-level than the final agreement that we have at the end.

Mr. Mario Pierre: Great, thank you.

Operator: And our next question comes from Mr. Marcelo Telles with Credit Suisse:

Mr. Marcelo Telles: Hi, hello everyone. I have a question regarding your fee guidance; it basically maintained, you know, the same 10 to 12% guidance that you had provided at the end of last year. But I remember, you know, when all these discussions about lower credit spreads started, one of the arguments was that banks (and yourselves) would be able to increase fees in order to compensate for lower credit spreads, and you maintained this 10 to 12%. I want to know what the reason is for that and if you think that maybe next year we can expect some acceleration in fee growth?

And then, my second question would be still on the margins, because looking… if you look at the agreement you guys had with BMG and so on, I believe that your mix might change in a meaningful way right (very high growth in mortgages, high growth in payroll lending). And my assessment is that even if you look in terms of credits spread after provisions, I would imagine that those segments would still be…would still have lower risk-adjusted spread than other segments, therefore should expect a decline in your margins, aside from the impact of lower rates (just easier to predict), but how do you respond to that? And why are you so confident that these spreads or the margins after the provisions will not go down? Thank you.

Mr. Rogério Calderón: Marcelo, we agree with your point on fees and that is exactly why we are not reducing an expectation in terms of fee income, despite we have a lower contribution from the auto loans segments, and also the selling of Orbital that reduces our fees on this specific business.

So, despite we have those reductions since the first moment we launched the guidance on fee income, we are keeping what is…if you consider everything the same, it would imply actually an increase expectation in fee income. We are keeping the same despite of this reduction in terms of growth. Remember that the auto loans represent a very important contribution in terms of fee income and also the investment bank had a lower level of activities than what we had forecasted at the beginning when we launched the guidance.

I think that if you add everything in a more negative or lower dynamics in terms of growth (beginning from the growth of the Brazilian economy, so all included), just by keeping the fee income perspective we think we have a positive re-approach of this perspective.

In terms of margins, as you mentioned, we are moving, we are changing the mix of the portfolio towards lower risk. And the margins, the gross margins, the margins before the bad debt should be impacted over time (it takes some time as I mentioned in the prior question) but this trend is what we also believe is going to happen. When looking at the margin after bad debt then it's different, because the level of bad debt we have now is pretty high, so it tends to reduce as a proportion of the margin; so, offsetting part of this pressure. So we don't think that we are going to be pressured down, we don't share the view of this major compression in the margin after bad debt.

Mr. Marcelo Telles: Thank you.

Operator: And our next question comes from Mr. Marcelo Henrique with BTG Pactual.

Mr. Marcelo Henrique: Hello guys, I have two questions. One, you know, one is stress a little bit the discussion on the NII and margins, and trying to separate 2012 and 2013, looking at your numbers (and this from my perspective) when you look at the whole NII even if you include with the market, it seems very reasonable to assume that you're going to have difficulties in increasing this number in absolute terms until the end of the year.

If you assume that (as you always said) margins from the market should go…should be between R$ 800 to R$ 900 million and the fact that on the client's side the interest rate should be lower on average in the next two quarters if you compare to the same quarter 2012, and then you continue to have a very low long growth, so it seems unlike that you can improve this number, so in 2012, specifically, just pointing how confident you are of reaching a number which is pretty much around 10%?

And moving forward to 2013, it's difficult to see but maybe you have a pickup in volumes, your visibility is still very low, but on the margin side (and that's my question) the margin side, I understand for your comment that's very hard to compare the Central Bank data with the numbers that the bank's report but the reduction was very pronounced and even if you consider like half of what happened in the Central Bank, what should we expect from margin reduction in 2013 from the client perspective with the 40 bps, 50 bps decline? Would be it something that should be reasonable?

Mr. Rogério Calderón: Ok, Marcelo. Looking first lead to the coming quarters, as you mentioned, we've just released our expectations for the credit growth income passing auto loans, it means that our final portfolio's growth at the end of the year is going to reach around 10%, we believe that the level of contraction that we are seeing that margins are going to be moving at the same pace in the coming quarters, so we do believe that the NII growth should be lower than 10%, close to 10%.

When mentioning our margins with the markets, that includes the contribution from trading but also includes the assets and liabilities management of the bank, we believe that we are going to be posting the same perspective that we… you just mentioned, that we normally announce to the market, so around R$ 900 million every quarter. So we believe that at the end of the year we are going to be close to 10%, but lower than 10% in terms of NII.

When looking at the next periods (2013 onwards), we believe that we are going to have a contribution from bad debt, so despite of this reduction in the margins, we do believe we are going to obtain the benefits of this chance, because, mainly, when you look at the data from the Central Bank, what we have is the change of the mix, so we know that the spread measured by Central Bank is actually now, based on a type of portfolio that is not what we have majorly in our portfolio, it's not…as a consequence, is bothly impacting the spreads and the losses on credit, so we believe that we are going to post better figures in terms of the amount of losses on credit. This is pretty important when you forecast our expectation for margins.

Mr. Marcelo Henrique: Would you agree that it is easier, or let's say, less difficult to keep your margins a little bit more resilient in a sense that you're not growing (you actually decelerate your loan book) so you can move towards 2013? And if you want to reaccelerate that your margins should compress much further than what happened this year? And not to mention that the interest rate on the average in 2013 should be much lower than this year’s as well, at least, that’s what you are currently saying. So I'm just wondering (I know you're not providing guidance for 2013), should we expect a much larger compression of margins in 2013 that you are seeing now?

Mr. Rogério Calderón: We… it is important… you made a good point; volumes should increase (remember that these movements on spreads moving the credit growth towards lower risk is actually what we have decided to do, what we have announced a year ago). So we are moving on that direction, we just announced this BTG agreement (the new bank on the payroll) and BMG agreement (the new origination on this payroll liquid loan), so this is all related to increase the volumes of the bank. So it's probably another good benefit on our margins as well.

Mr. Marcelo Henrique: Ok.

Mr. Rogério Calderón: And the Selic … remember that Selic is reducing this year, but the Selic expect for the next year is different; some guys in the market are actually pointing Selic up.

Mr. Marcelo Henrique: Ok. And sorry, just one last question on the loan loss provision: if I'm looking at it right, when you report by segment (if I look the numbers specifically on Itaú BBA), your loan loss provision… the expenses increased almost 3 times quarter over quarter, I mean, from 79 or 80 million (something like this) to 230 or 220. And, you know, one of your competitors, actually two of them, are saying that this quarter specifically they had to increase the provision on a large corporate side. So I'm just wondering if this is related as well, because I know that Itaú BBA specifically, that's where you handle the large corporates, I am just wondering if this is related and if you see this continue?

Mr. Rogério Calderón: Marcelo, this is all contained in our expectation of bad debt expense for the rest of the year. The movements you saw in the second quarter 40% is related to forex impacts and all the other movements are related to the mix of portfolio and maturity; not special case, not specifically anything. The NPL, actually, improve the 20 basis points for large corporates and this is all included in the bad debt expectation.

Mr. Marcelo Henrique: Ok, I got it. Thank you very much.

Operator: And next question comes from Mr. Victor Galliano with HSBC.

Mr. Victor Galliano: Thank you. Yeah, just couple of questions here. One on the NPLs: I'm looking at particular the vehicle and what you put that on slide on page 12 (which is very interesting), so are you saying that 2011 quarterly average of provision of 607 million, is that kind of normalized level that you would expect to be kind of heading back to? Or is there any effective contamination there saying Q3 and Q4 in that provision number? In other words, could this actually…could a normalized provision for vehicle loan portfolio be lower than the 607 million? That's my first question.

The second one is: what…do you disclose what percentage of your total loan portfolio is fixed rate? And of this, what percentage would mature in the next 180 days? Those are my questions.

Mr. Rogério Calderón: I'm trying to take the figures here to address the second question. Regarding your first question, actually, the proportional level of bad debt expenses (back to this level that we announced here) is a good proxy. But as the portfolio is now at a lower level, the nominal amount should be even lower than 600 million.

Mr. Victor Galliano: Right.

Mr. Rogério Calderón: And, also (Caio is actually mentioning here), also there is a mix change in terms of the quality of the origination, so we are originating the credit now at a lower risk. If you look at your left-hand side you will see that terms are shorter and the levels of down payments are higher; so the quality of the portfolio is actually better, so it should improve as well as a consequence of the mix.

Fixed rates, it's around 80% and I think maturity (a good guess, you know with not a very fine…refined calculation here), is around two years. Two years is the average.

Mr. Victor Galliano: And 80% of your portfolio is fixed rate?

Mr. Rogério Calderón: Yes.

Mr. Victor Galliano: 80…

Mr. Rogério Calderón: Just remember that (although fixed rates) it has a short duration. So it's actually some lines, despite of these fixed rates, they have a behavior that is similar to a floating rate behavior.

Mr. Victor Galliano: All right. So really fixed rate it's…would it be half of that? Would it be 40%, do you think? In terms of… that would really have a sort of average maturity of two years?

Mr. Rogério Calderón: I don't have the figure here. We are going to study if we can supply this information to the market in the future.

Mr. Victor Galliano: Fair enough.

Mr. Rogério Calderón: It's a good quality of information. Thank you for the suggestion. We are keeping note of this, Victor.

Mr. Victor Galliano: Ok, thank you.

Mr. Rogério Calderón: Thank you very much.

Operator: And our next question comes from Mr. Mac Pina with Morningstar Equity Research.

Mr. Mac Pina: Hi, good morning guys, thank you very much for taking my call. I have a question about… I really appreciate your information on the vehicle loans. I was wondering if you could provide some more similar color on your mortgages and, in particular, with the credit quality of your newest mortgages, your latest vintages. And then, follow up on that (also on your mortgages), what would be the average rate of the new mortgages that you're bringing in the pipeline?

Mr. Rogério Calderón: Well, the level of…well, maybe, Mac, I could start by saying that the mortgage business in Brazil is a low (almost zero) risk because the loan to funds… the value of the collateral is actually pretty high. The average loan to value is around 65, 70%. So the value of the collateral is pretty high.

The interest rate paid is the lowest one in the country. The level of over 90 days is close to zero (to give you a good figure on this). And we keep originating at a very, very high level, and we… another good example is that: we offer terms up to 20, 25 years. The average origination is around 15 years (much lower than what we offer). And at the end of the day we have around

80 years in terms of down payments because we have lots of prepayments in this portfolio as well.

Mr. Mac Pina: Ok. So, just to recap, you said: loan to value between 65 and 70%, right? In your NPLs over 90+ are close to zero? Is that what I heard?

Mr. Rogério Calderón: Close to 65, and close to zero, as you mentioned.

Mr. Mac Pina: Yeah, in NPLs. Ok, this is very useful.

Mr. Rogério Calderón: I think it's also interesting to highlight to you, Mac, that we have a constant amortization scheme in Brazil; what gives benefit to the bank as well because the amortization keeps earlier than what normally you see in other parts of the world.

Mr. Mac Pina: Ok. Understood. That's very useful. Thank you very much gentlemen.

Mr. Rogério Calderón: Thank you.

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

Mr. Alfredo Setubal: Thank you all for participating with us in this conference call. We continue to be very comfortable with the direction and in the positive strategy that we have. Thank you and we are waiting for you for the next conference call.

Operator: That does conclude our Itaú Unibanco Holding earnings conference for today. Thank you very much for your participation and have a good day.
