



Itaú Insurance

Principles for Sustainable Insurance

Report 2013



Seguros Itaú [Itaú Insurance]

Profile

Itaú's insurance business has been operating in the insurance sector since 1921, serving companies and individuals, providing specific products and dedicated assistance for projects of the most diverse sectors, such as civil construction, chemicals and petrochemicals, power generation, infrastructure, transportation, aviation.

In the segment of small and medium businesses, our aim is to offer simple and effective solutions to better serve the needs of our clients, with a highlight on property and group life insurance products.

Life insurance, accident insurance, loan protection insurance, travel insurance, capitalization bonds and extended warranty insurance products are available for individuals.

According to data from the Superintendent of Private Insurance (SUSEP), Itaú's insurance business is one of Brazil's biggest insurance groups, with 13.3% of the domestic market share, including its 30.3% stock interest in Porto Seguro, which is also a PSI signatory.

In 2012, the organization earned R\$ 4.5 billion in premiums, which represents a 14.2% increase. The underwriting margin on the premiums earned was 39.0% in December 2012, in comparison with the 42.7% obtained in December 2011.

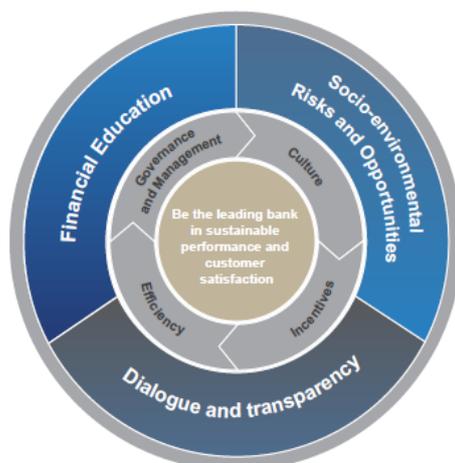
In addition to working for both companies and individuals, Itaú Insurance is a pioneer and the nation's leader in the Extended Warranty Insurance market, closing the year 2012 with a 53% market share.

Sustainable Insurance

Background and Motivations

Itaú Unibanco's vision is to be the leading bank in sustainable performance and customer satisfaction. Sustainable performance means generating shared value for clients, stockholders and society while guaranteeing business perpetuity.

Based on our definition of sustainable performance, we created a sustainability map that acts as a strategic guide, orienting various operating and business areas to incorporate sustainability criteria into their decision-making processes. The sustainability map features 3 strategic focuses – financial education; socio-environmental risks and opportunities (which Itaú's insurance business falls under); and dialogue and transparency. These focuses were defined based on our vision and way of doing things (which express our culture), our corporate policies and the voluntary commitments we are signatories (which guide our sustainability management).



Signing the PSI is in line with Itaú Unibanco's Sustainable Performance strategy.

Over the past years, our insurance business has incorporated ESG criteria into its product development and customer relations processes.

In 2005, we made a pioneering move by launching Itaú Unibanco Environmental Insurance. This product offers our corporate clients legal safeguards in the case of sudden, accidental pollution and protects them in the case of gradual pollution. This product's differential is its coverage flexibility, making it possible to design solutions tailored to specific customer needs.

Throughout 2011, we reviewed our products and contracts with two goals in mind: making them easier to understand by means of clearer language and shorter executive summaries, and improving our sales by offering insurance products appropriate to each profile. These measures resulted in a reduced cancellation rate and lower sales costs.

We believe that joining the PSI contributes to the evolution of this internal process, ensuring its feasibility by seeking to engage other insurance market players, such as brokers and regulatory agencies. In addition, we have the opportunity of exchanging experiences with other members of the PSI Global Team and the entire UNEP FI network, which is a rich source of best practices.

Itaú Unibanco Holding has been a UNEP FI member since 2007. In 2013, we assumed the chair of the Latin American Task Force and of the Banking Commission, because we believe in the importance of joint engagement for the effective transformation of markets and society. This is in line with our vision of being the leading bank in sustainable performance and customer satisfaction.

In addition to complying with Itaú Unibanco's Socio-Environmental Risk Policy, joining the PSI strengthens the institution's commitment to collaborative initiatives in the financial sector, which is consistent with our history of adherence to the Equator Principles and the Principles for Responsible Investment (PRI).



Governance

After adhering to the PSI at Rio+20, a workgroup was formed of representatives from the Individual Client, Corporate Client and Garantec boards of directors. This group was trained with regard to the theme by our sustainability department in order to share PSI-compliant initiatives and projects with the rest of our insurance division.

Throughout the year, our marketing department played a fundamental, strategic role in informing and engaging all employees concerning the theme's progress in the workgroup.

With the objective of contributing to greater formalization of the processes of integrating ESG criteria into our insurance businesses, in 2012 we published our Socio-Environmental Risk Policy, which includes social and environmental guidelines applicable to corporate insurance operations. Its application involves the areas of Asset Risks, Group Life and Accident Insurance, and Corporate Solutions – for large corporations.

Our Socio-Environmental Risk Policy permeates all our business lines, assessing the specifics of each product, service or process. It defines rules for managing activities that pose socio-environmental risks, independent of the product or service marketed, and provides general and specific risk-analysis guidelines, which take into account the following practices:

- Exploitation of workers under slave-like labor conditions
- Use of child labor
- Prostitution
- Socio-environmental risks related to specific economic activities
- Contractual clauses involving social/environmental issues
- Specific social/environmental criteria in the underwriting of general and environmental liability insurance

The above practices are mainly tied to highly sensitive fields involving the production or sale of firearms, ammunition and explosives; the extraction and production of lumber, firewood and charcoal from native forests; fishing activities; and asbestos extraction and industrialization.

In 2013, our insurance division – through our areas of Corporate Solutions and Asset Risks, VG and APC – will include other measures in its Policy on Socio-Environmental Risks to business, such as updating underwriting procedures (Underwriting Guides), adopting strategies for developing products and insurance contracts, and employing procedures for training and engaging employees and other stakeholders.

Principles in Action

Individual Clients (PF, in Portuguese)

Representatives from the Individual Client (PF) executive board disseminated knowledge at training events concerning the content of the PSI for the areas of operations, claims and PF board services. An interactive e-learning tool was created for recycling the theme among service-area employees and training new employees.



Principle 1 – Transparency in Communication

One of our insurance division's main challenges in 2012 was restructuring its processes to make the products we offer customers less confusing and more appropriate to their needs. Consequently, our insurance business was able to reduce the number of policy cancellations and increase customer satisfaction. For individual clients and for small and medium businesses, the portfolio was simplified and electronic policies were adopted in order to provide faster service.

Also last year, our marketing department, together with our insurance division, conducted an extensive identity upgrade, which guides for our insurance business. Our new corporate identity was presented to over 1,500 employees. Subsequently, a lengthy dissemination and engagement program was outlined – after all, changing a company's way of operating begins within the organization. In 2013, our insurance division intends to contribute to changing Brazilian society's relationship with the insurance market, making insurance products more transparent and less confusing for customers.

Itaú Card-Protection Insurance

Our credit-, debit- and multiple-card protection insurance was simplified. The policies underwent improvements in the post-sale material and, with a more up-to-date model and simpler, clearer language, became more attractive to customers. With our new post-sale material, the amount of pages printed and materials used was reduced, thus permitting preparation cost reductions.

Life and Personal Accident Insurance

In May 2013, we implemented remote formalization of life and personal accident insurance contracts in order to guarantee our clients the convenience of confirming their contracts via remote channels: ATM machines, the *Itaú 30 Horas* website, cell phones (mobile app) and our call center.

This important initiative is fully aligned with our operations' sustainable performance and provides benefits for both our customers and our insurance business: for the insurance business, because it provides greater efficiency when signing the contracts, thus also improves the quality of the sale; and for customers, since it offers them the possibility of confirming their insurance contract quickly, conveniently and transparently – in addition to contributing to paper savings in our processes.

Insurance and Microcredit

In 2012, with respect to second-tier operations, we concluded the diagnosis of our partner-institutions and implemented institutional-support initiatives with the convergence of our Marketing and Insurance areas to offer prospectus and microinsurance materials to the institutions interested.

In 2013, our insurance division intends to expand the loan-protection insurance operation that insures the microcredit portfolios of several NGOs in Brazil.

By offering loan-protection insurance to customers that contract microcredit loans, our insurance division has the opportunity to advise them concerning the use by their family of the insurance compensation to



pay off debts and provide business continuity. Our target is to guarantee sustainable results both in the microcredit portfolio and in supporting the family to reestablish itself in the case of a claim.

Principle 2 – Service Providers

In compliance with the second principle, our main provider of 24-Hour Assistance was audited in January 2013, receiving a certificate of compliance with all criteria related to Social Responsibility, the Environment, Health & Safety, Legal Requirements, Business Ethics and Supply Chain Management.

In addition to the process of evaluating and certifying our main provider, our 24-Hour Service Department implemented a sourcing project with all of our suppliers, whereby one of the main objectives was to create a new profile for our customer service center, adhering to our values, principles and ethics, with initiatives that went from restructuring the physical space (consolidating the Itaú brand) to instructional training courses and humanization courses.

Principle 3 – Social Programs

Itaú Vida Mulher – Part of the revenue from personal life insurance policies sold to women is allocated to the programs of the Brazilian Institute for Cancer Control (IBCC, in Portuguese), an institution that is a standard in oncology in the state of São Paulo. Such initiative support our insurance division's commitment to the best sustainability practices by funding this important program for cancer awareness, research, prevention, early diagnosis and treatment.

As of 2013, our challenges relate to increasing revenue and market share by offering our portfolio's products through new distribution channels, with the same concern over maintaining a transparent relationship with our customers and reducing the number of policy cancellations. One of our initiatives is to raise the market's awareness of the importance of contracting loan-protection insurance, which guarantees the payment of loan debts in the case of the insured party's death or disability.

As to disseminating these principles, the areas that are not yet thoroughly familiarized with this theme will be invited to an event – similar to the one held for the areas of customer service, operations and claims – by the end of 2013.

We are currently creating a tool to evaluate the PSI compliance of new products, and we expect to implement it by 2014. This tool is being jointly developed by the products, commercial and back-office areas, and it will permit evaluating our insurance division's progress with regard to the sustainability theme. For 2014, we are considering including this theme in the teaching materials of new employees and in the evaluations of strategic partners.

Corporate Clients (PJ, in Portuguese)

Corporate Insurance – Legal Entities

Principle 1

To ensure the incorporation of the principles contained in the PSI guidelines, PJ Board representatives developed a PSI Tactical Plan that is divided into two fronts:



Engagement of internal and external stakeholders

- a) Evaluation and adoption of PSI guidelines for PJ products, processes and services. The goal is to identify risks and opportunities linked to each other and develop action plans to mitigate or improve them.

In terms of engagement, the strategy seeks to inform, educate and involve the public concerning Brazil's adoption of environmental, sustainability and governance criteria relevant to the health and sustainability of the insurance industry and society, promoting the dialogue necessary to the development of collective risk-management initiatives involving Environmental, Sustainability and Governance (ESG) issues.

We seek to engage our direct employees and partner areas in order to train them in the development and management of products, services and processes. With regard to the public, especially our chain of risk-inspection and regulation-loss service providers, the focus will be on taking action and raising awareness.

Considering social order and PSI Principle 1, in 2012 we started several projects of great relevance to the Itaú Unibanco Conglomerate as follows:

- ✓ Implementation of an Environmental Risk Policy
- ✓ Expansion of our "Electronic Policy" project to reduce the volume of paper printouts
- ✓ "Climate Change" research to adapt our way of pricing equity products
- ✓ Solid Waste Disposal Assessment Policy to identify impacts on insurance operations

In line with the new challenges assumed by Itaú Insurance in terms of Sustainable Performance, we highlight the training course on Degrading Labor that was given by the renowned professor Leonardo Sakamoto on April 2013 for our employees and partner areas, such as the Claims and Middle Market teams and the Sustainability and Legal departments.

As a further step toward the implementation of the PSI principles, in 2013, we will present the following projects:

Principle 2

A survey of our service providers based on a sustainability-related questionnaire, which will offer us a general view of how well our service partners are acquainted with the sustainability theme and will thus enable us to define an engagement strategy for them.

Principle 3

- Transparency, which focuses on revising the general and special conditions of corporate insurance policies, of various types of risk insurance policies, and of life insurance policies, clarifying these conditions and eliminating those that are unfavorable to customers that could lead to complaints/lawsuits.

- Financial Education will develop an online consultancy tool focused on micro, small and medium enterprises. The goal is to help entrepreneurs understand their risks, in order to discover the kind of insurance they should buy, and to translate the technical jargon in order to eliminate their doubts as to what they are buying.



Garantec

Extended Warranty Insurance

It is a fact that “insurance products” are becoming more and more available to all social classes in a trend to preserve the assets people have acquired. Extended warranty insurance is playing its role along these lines, making it possible for the most diverse levels of society to acquire it. In many cases, it ends up being the first insurance acquisition to millions of people.

This insurance protects the insured product against functional, electrical, electronic or mechanical defects that appear after the manufacturer’s warranty has expired.

Pioneer and leader in this market, Garantec is the Extended Warranty Insurance brand of Itaú Unibanco, Brazil’s biggest private bank and one of the world’s ten largest. Founded in 1998, it is available throughout Brazil alongside other big retail names, prepared to handle companies of all sizes in the most diverse segments.

It offers excellence, quality and security through the efforts of a team of highly qualified professionals focused on the client, boasting a portfolio of around 45 million active insured parties. Tranquility, security and economy are some of this insurance’s benefits because Garantec is responsible for the entire process of repairing or exchanging the defective product through a network of over 3,000 Authorized Tech Service Centers, considering that the cost of the insurance is always less than the price of a single repair.

Principle 1 - Quality and Transparency in serving our insured customers

In 2012, Garantec restructured all of its customer service channels, aiming at promoting a more humanized and friendly form of assistance and at paying the necessary attention to its customers during each call answered.

In the same year, customer service was internalized, and all Garantec’s operators are now its own employees.

Results appeared almost immediately during the first months of the internalization process, increasing customer satisfaction.

Internal Operation

We seek to offer our customers simple solutions. Our FirstCallResolution indicator increased by 21% after we internalized our customer servicing.

The employees themselves feel they are part of the business, which directly influences their commitment to quality service.

Customer Service

We constantly seek to surpass our customers' expectations, measuring their satisfaction monthly via a firm specializing in satisfaction surveys.

In 2012, we registered a 16% increase in our service satisfaction score in relation to the last quarter of 2011.

Service Quality Controls were created, aiming at better serving our customers.

Operational Control

In 2012, we automated our quality control system, minimizing settlements after the deadline, achieving efficiency gains and increasing productivity for our internal team and guaranteeing customer satisfaction.

Customer Service Call Center

With an efficient and up-to-date customer-service system, our clients need to call us less to solve their problems.

Kaizen Projects

Series of projects to improve our internal processes, aiming at providing quicker, straightforward servicing, with a focus on reducing the repair time of returned products.



Principles 1 and 2 – Quality of the Sale

By way of a highly qualified training department, over 45,000 retail-store salespeople and managers were instructed, via training and e-learning courses, on who to offer insurance products with quality and transparency for end customers.

In 2012 we completely restructured our training courses. By mapping the essential skills to a quality sale, we reformulated the content and format used and developed new customer-service models targeting all the links in the sales chain, seeking the greatest possible capillarity without sacrificing quality.

During that same year, we worked on the exposure of our extended warranty insurance and of the Garantec brand in participating stores by providing them with materials that were personalized for each of them. Thirteen retail stores displayed wobblers, stickers, gondola banners, cubes and other items, always highlighting the benefits, rules and peculiarities of extended warranty insurance that make its sale more transparent. Furthermore, we developed Digital Out-Of-Home (DOOH) media with the same objective as that of the points of purchase (PoPs) in order to complete the store displays and influence customers.

In 2013, our goal is to achieve a 60% increase in the number of stores displaying Garantec materials, which, along with the other materials (such as the General Contractual Conditions, Guidebook and Extended Warranty Insurance Best Practices Guide), facilitate the customers' understanding and decisions concerning the advantages of acquiring this insurance.

Principle 2 – Garantec innovated, uniting itself with partners possessing environmental certification for discarding waste originating from products repaired or exchanged for customers.

Garantec's Salvage Department is part of the challenge of reaffirming our commitment to sustainable development with regard to customer-service issues involving returned electronic devices, taking responsibility for managing returned products as soon as the total damages and the parts replaced during repairs have been ascertained. It then decides as to their removal from circulation, sale and/or sustainable disposal.

In addition to managing the disposal of returned batteries and electronic equipments, Garantec also encourages the tech service centers to send components replaced during repairs, such as TV tubes, monitors, wires, plastic parts, circuit boards and cables, and electric motors. Garantec also assists communities to adopt sustainable principles by providing, for example, battery-collection displays at 28 collection stands (Eco Booths).

All waste material is sent out to specialized firms (project partners) that provide for the proper treatment and recycling of the materials according to the certifications. In 2012, approximately 4.7 tons of collected material was registered.

Garantec presently enjoys two sustainability-based partnerships with companies responsible for treating waste in an ecologically correct manner and issuing Green Seals proving compliance with the National Policy on Solid Waste in effect via Federal Law no. 12,305 of August 2, 2010.



Final Considerations:

In the first year, focus was given to the construction of a long-term macro strategy capable of encompassing the various segments of the business while paying due attention to their specifics. Additionally, we initiated a process indispensable to the success of any initiative that requires the internalization of new concepts: an agenda of training courses on sustainability issues that directly affect the insurance business, such as slave labor, climate change, firearms and ammunition, and other themes.

Now, possessing this knowledge, our objective is to increasingly identify ways and tools to mitigate risks and expand opportunities tied to the new market and societal reality.

Over the next few years, we know we will face times with increasingly uncharacteristic patterns of change and risk scenarios that will be more dynamic, systemic and unforeseeable. That said, we believe our business strategy gained greater strength with the arrival and incorporation of the sustainability concepts described by the PSI Principles. We thus already feel more apt to increasingly improve our operations' profitability, our business performance, our human capital and our way of providing solutions both in line with our clients' needs, adding value for stockholders and society, and in line with the leading role we want to play in promoting sustainable development.

In fact, what we want to be is a company that is more and more capable of analyzing risks beyond their purely financial aspects, persistently providing society with all the potential of our human capital and of our innovative insurance solutions and positioning ourselves as a standard in the Brazilian insurance market in the lines we operate in when we think about truly sustainable long-term business.

Additional information about our insurance division and the PSI is available at Itaú Unibanco Annual Report <http://www.itaunibanco.com.br/relatoriodesustentabilidade/2012/en/ra/index.html>