HARVARD | BUSINESS | SCHOOL

9-212-094
REV: JUNE 3, 2012

BELÉN VILLALONGA
JOHN A. DAVIS
RICARDO REISEN DE PINHO

Itaú Unibanco (A): The Merger Process

If you stay together, you will go far; if you separate, you will be left with small companies.

— Alfredo Egydio de Souza Aranha, to Eudoro Villela and Olavo Setubal[1]

On November 3, 2008, Roberto Egydio Setubal, CEO of Banco Itaú Holding Financeira, and Pedro Moreira Salles, CEO of Unibanco and Unibanco Holdings, arrived at São Paulo's Museum of Modern Art—presided by Roberto's cousin Milú Villela—to give a press conference together. Earlier that day, the two CEOs had announced the merger of the two Brazilian banks into what would be the largest private financial group of the Southern Hemisphere, and one of the 20 largest in the world in market capitalization: Itaú Unibanco. With over $200 billion in assets, Itaú was the largest private-sector bank in Brazil, and was controlled by the Setubal and Villela branches of the Egydio de Souza Aranha family. Unibanco, in turn, was the fourth largest, with assets of $92 billion, and was also controlled by its CEO's family, the Moreira Salles's. The announcement was greeted with enthusiasm by a stock market that the global financial crisis had dragged down to its trough only one week before.

After 15 months of secret discussions between and within the families, Pedro and Roberto were now eager to share the news with their clients, employees, minority shareholders, competitors, and the Brazilian population at large, all of whom were caught by surprise. As surprising as the transaction itself was the way in which it had been structured and announced: neither as a merger nor as an acquisition, but as a joint venture between the two families, who would share control of the combined operations on a 50/50 basis, despite the large differences in value between the two banks and between the families' ownership stakes in them. Roberto and Pedro would not only need to explain to their broader base of stakeholders how and why they reached this decision, but also to prove that they could make it work.

The protracted merger talks between them had built a solid foundation in this regard, by aligning the values, vision, and dreams of the two families. However, they now needed to figure out, together, the details about what to do, and when to do it, to successfully complete the construction of the financial behemoth they had set to create.

Professor Belén Villalonga, Senior Lecturer John A. Davis, and Senior Researcher Ricardo Reisen de Pinho of the Latin America Research Center prepared this case. HBS cases are developed solely as the basis for class discussion. Cases are not intended to serve as endorsements, sources of primary data, or illustrations of effective or ineffective management.

Copyright © 2012 President and Fellows of Harvard College. To order copies or request permission to reproduce materials, call 1-800-545-7685, write Harvard Business School Publishing, Boston, MA 02163, or go to www.hbsp.harvard.edu/educators. This publication may not be digitized, photocopied, or otherwise reproduced, posted, or transmitted, without the permission of Harvard Business School.

Purchased by Carlos Gouvea (carlosgouvea@usp.br) on January 29, 2013

The Brazilian Banking Industry

Brazil's rise as a global economic power over the previous decade could be attributed, in part, to the Real Plan of 1994, a successful macroeconomic policy that reduced inflation to a single digit and helped the country establish itself in the international marketplace. Access to banking services went through a democratization process that reflected consumers' greater purchasing power, and a lower informality in the labor market. From 2000 to 2007, the number of active checking accounts in Brazil almost doubled, jumping from 63.7 million to 112.1 million,[2] while savings accounts rose from 45.8 million to 82.1 million and internet banking accounts surged from 8.3 million to 29.8 million during the same period.[3] However, Brazil's private sector credit to GDP ratio was still low when compared with its developed and emerging market peers. By way of comparison, in 2007, Brazil had a ratio of 23.4%, the United States, 146.8%, South Korea, 134.4%, and Spain, 211.9%; while developing countries such as Chile had 75.2%, Russia, 34.4%, and South Africa, 207.2%.[4] Likewise, card payments as a percentage of personal consumption expenditures rose from 13.7% in 2004 to 19.1% in 2007, as compared to 44.5% in the US or 46.6% in Canada.[5]

During that period, the Brazilian financial system underwent a wave of consolidation, with dozen of state and private-sector banks being acquired or liquidated. (See **Exhibit 1** for selected mergers and acquisitions in the industry between 1994 and 2008). As of December 1995, total assets in the Brazilian financial system added up to $615.3 billion, with the top 10 banks accounting for 54.6% of the total. By December 2008, total assets had more than doubled in U.S. dollar terms to $1,410.3 billion, and the top 10 financial institutions accounted for 76.5% of the total.[6]

Two clearly differentiated groups emerged from this process as the big winners. On the one hand, the largest state-owned banks such as Banco do Brasil and Caixa Econômica Federal were able to concentrate most of the government accounts and act as its main intermediaries for federal budget execution. However, they historically had lower profitability than their private-sector counterparts, due to the political influence they were subject to, which sometimes forced them to subsidize commercial operations to fulfill social policies induced by the government in rural areas. On the other hand, local privately owned banks such as Itaú, Unibanco, and Bradesco, pursued international efficiency standards, offering a wide array of sophisticated services, cross-selling products, and controlling costs. With an aggressive track record of successful acquisitions and investments in technology and quality, these banks leapfrogged most of the competition and positioned themselves as front-runners in the market.

With very few exceptions, international banks played a more minor role relative to local banks. Although Latin America, and Brazil in particular, had improved its macroeconomic fundamentals in the previous decade and growth forecasts were promising, the region was still considered too volatile and had an income distribution too uneven for the taste of many traditional global banks. In addition, many relied on expatriates with poor local knowledge to manage their Brazilian subsidiaries, or did not have the proper capital base to leverage operations for them. This scenario changed in the late 1990s, however. In 1997, the British HSBC bought Banco Bamerindus, and in 1998 the Dutch ABN Amro acquired Banco Real. In 2000, Santander from Spain made an aggressive move and acquired Banespa, the Bank of the State of São Paulo, at a public auction. With a strong footprint in the most affluent region in Brazil, Banespa was a key asset for any new entrant or incumbent, and Santander outbid all of its contenders. During the early 2000s, investment banks and private equity funds were also attracted to new investment opportunities in the country. In October 2007, Santander again shook the local market when it integrated Banco Real—previously owned by ABN-Amro—with its operations in Brazil. With this move, Santander became the sixth largest bank in Brazil and the third

Purchased by Carlos Gouvea (carlosgouvea@usp.br) on January 29, 2013

among the private-sector ones (see **Exhibit 2** for selected financial information for top Brazilian banks in 2007 and 2008).

Unibanco and the Moreira Salles Family

Unibanco's history can be traced back to 1919, when João Moreira Salles opened a general store in Poços de Caldas, a small town in the state of Minas Gerais. Casa Moreira Salles, as the store was known, soon began acting as a correspondent for banks in larger cities, and obtained a banking license in 1924. In 1931, the store's banking section was renamed Casa Bancária Moreira Salles, which throve as a wholesale bank, financing large-scale city and state government projects and hotels in the region. João and his son, Walther Moreira Salles, were the sole shareholders. In 1940, the bank was renamed Banco Moreira Salles after its merger with two other local banks, Banco Machadense and Casa Bancária de Botelhos. While his father shifted his attention to the family's agricultural businesses, which would grow to include the world's largest coffee plantation as well as 1.1 million acres of cattle-ranching land, Walther became the executive director of the bank and initiated its transformation from a regional player into a bank of national scope. In 1941, Banco Moreira Salles opened it first branch in Rio de Janeiro (Brazil's capital at the time), and in 1942 it opened another one in São Paulo. Within five years, the bank had grown to 63 branches, spread over several states.

Starting in the late 1940s, Walther built a successful career in the public sector that included serving twice as Brazil's ambassador to the United States and as Minister of Finance during the 1960s. His statesmanship also allowed him to add further value to the family business. As one of the main individuals responsible for renegotiating Brazil's external debt, Walther developed close ties with the international financial community, bringing back innovative ideas and a global business perspective to Brazil during a period of fast economic growth in the country. Over the decades that followed, strategic alliances with international partners would become a differentiating factor for the Moreira Salles business group. Under Walther's leadership, the group also diversified its activities into businesses such as petrochemical and mining, which would eventually become highly lucrative for the family.

In 1964, Walther refocused his efforts on the bank's expansion. Following a series of mergers and acquisitions, the bank was renamed União de Bancos Brasileiros (Union of Brazilian Banks), or UBB, in 1967. By then, the bank had over 8,500 employees, 333 branches (the largest network in Brazil at the time), distributed over nine states and the Federal district, and over one million accounts. In 1968, following his father's death, Walther became CEO of UBB and took it public on Bovespa, the São Paulo stock exchange. In 1975, the financial group, comprised of 15 banks whose activities included retail and investment banking, credit cards, leasing, brokerage, and insurance, was renamed Unibanco. The year prior, they had been approached by Bradesco for an intended merger, but decided not to proceed due to the disparity between the two banks' cultures and strategic views. In his growth strategy, as in his day-to-day management principles, Walther always sought to attract and retain talent. "It is very simple and yet, extremely difficult: you need to know how to choose people," he stated. According to Pedro, "my father was associative in nature; and even though he always had control, he consistently allowed partners to participate in the end result."[7] Thus, meritocracy, a sense of ownership, and the quest for best practices became deeply ingrained in the culture of the bank and the Moreira Salles family values.

In 1976, Walther formally constituted Unibanco's Board of Directors and became its Chairman, leaving the CEO position to a non-family executive—a division of roles that would last almost 30 years. In the interim, his third son, Pedro Moreira Salles, joined the bank as a board member in 1989, and was appointed Vice-Chairman of the Board in 1991 and Chairman in 1997.

Purchased by Carlos Gouvea (carlosgouvea@usp.br) on January 29, 2013

In 1994, the Moreira Salles family formed Unibanco Holdings to raise more capital for Unibanco's future growth, while allowing the family to retain control of the bank. As was common in Brazil, a dual-class share structure at both Unibanco and Unibanco Holdings further facilitated this purpose. Each entity had two classes of shares, both publicly listed. Common shares, which were listed under the symbols UBBR3 for Unibanco and UBHD3 for Unibanco Holdings but mostly held by the family, were entitled to one vote per share. Preferred shares, which traded under the symbols UBBR4 for Unibanco and UBHD6 for Unibanco Holdings and were mostly held by strategic partners and public investors, were entitled to superior or prioritary dividends and liquidation rights, but no voting rights.[8] The two classes also carried different board representation rights for minority shareholders.[9] Unlike in other Brazilian corporations, however, minority holders of common shares of Unibanco or Unibanco Holdings had no tag-along rights that would assure them the same price and terms as the controlling shareholders would receive in the event of a change in control; in that sense, their shares were no different from the preferred.[10] As required by Brazilian law at the time, preferred shares could account for a maximum of one half of the issued capital in a financial institution like Unibanco, but up to two thirds of the issued capital in other corporations—including holding companies like Unibanco Holdings.[11]

In 1995, when the Real Plan left several ill-managed banks exposed, Unibanco acquired a selection of Banco Nacional's assets and liabilities from Brazil's central bank, which had been forced to intervene it. The acquisition was financed with newly issued stock of both Unibanco and Unibanco Holdings, which the central bank later had to divest. To generate the liquidity needed to facilitate the divestiture, in 1997 Unibanco created an innovative type of security called "units." A unit was a certificate of deposit representing one preferred share of Unibanco and one preferred share of Unibanco Holdings, which were stapled together for trading purposes. The units were publicly floated both at Bovespa, under the ticker symbol UBBR11, and at the New York Stock Exchange (NYSE) under the form of American Depositary Receipts (ADRs) with the symbol UBB, each of which represented 10 units.[12] At $1.23 billion, the worldwide offering was Latin America's fourth largest at the time, and made of Unibanco the first Brazilian company to trade on the NYSE.

The Banco Nacional acquisition raised Unibanco's scale to a new level, particularly in retail banking and credit cards. Over the years that followed, Unibanco also reinforced its position in other segments through mergers and strategic alliances: it partnered with American International Group (AIG) to develop new insurance products, it bought 50% at first and, eventually, the remaining equity of Fininvest, a leader in consumer credit, and it acquired the Brazilian subsidiary of the Bank of New York as well as Banco Bandeirantes, which added approximately 500 new branches to its existing 1,061 ones.[13]

Walther died in 2001 and, in 2004, Pedro was appointed CEO of Unibanco. Pedro, who had studied economics and history at UCLA and graduated from Harvard Business School's Owner-President Management program, was the only one of Walther's four sons who had shown an interest in banking. Walther's eldest son, Fernando, was a publisher and served as Chairman of the family business group's mining arm, whose main asset was a mine that produced more than 80% or the world's supply of niobium (used to strengthen steel). Pedro's two other brothers, Walter and João, had successful careers as a filmmaker and documentarian, respectively. (See **Exhibit 3** for the Moreira Salles family tree). Thus, Pedro was able to exercise sole control of the bank on behalf of his brothers. "I have always gotten full support and confidence from them, and we never dispute one another's decisions," he said. "I just keep them fully informed about any important developments."[14]

Unibanco's multi-class share structure had allowed the Moreira Salles family to retain control of the bank despite its continued growth. In fact, through a series of share conversion programs, the

Purchased by Carlos Gouvea (carlosgouvea@usp.br) on January 29, 2013

family was able to increase its holdings of common stock over time—thus reinforcing its voting control—while catering to its minority shareholders' preference for greater liquidity. By 2008, the family collectively owned 32.9% of all shares and 97.1% of the votes in Unibanco Holdings through the family's private holding company, E. Johnston Representação e Participações. Unibanco Holdings, in turn, owned 58.3% of the shares and 94.5% of the votes in Unibanco (see Unibanco's ownership structure in **Exhibit 4** and its board of directors composition on **Exhibit 5**).

In September 2008, Unibanco had 28,490 employees and 970 branches serving approximately 30 million customers, and with $92.3 billion in total assets it was the sixth largest bank in the country, or the fourth within the private sector. It also had $30 billion in total deposits, a market capitalization of $17 billion, and a Basel ratio of 12.97.[15] (See **Exhibit 6** for Unibanco's key financial information). It was considered the most international of all Brazilian financial institutions, and one of the least formal in its culture. Throughout the years, Unibanco had developed a distinctive customer service and focus on human resources. As Walther Moreira Salles had summarized it in his farewell speech when he retired from the chairmanship of the board in 1991, "[We are] a bank of people serving people."[16]

Itaú and the Egydio de Souza Aranha Family

The history of Itaú and its founding family had a number of similarities with Unibanco's. The bank's inception dated back to 1943, when Alfredo Egydio de Souza Aranha founded Banco Central de Crédito in the city of São Paulo at a time when the country was experiencing an industrial expansion, and financing was in high demand. Born into an aristocratic Paulista family, Alfredo was a successful entrepreneur who, in addition to running some of his family's agricultural and textile businesses, had initiated a number of industrial and financial ventures himself. Among them was Banco Central de Crédito, which he co-founded with Aloysio Ramalho Foz; the insurance company Companhia Ítalo-Brasileira de Seguros Gerais, which he acquired 1935 with several partners whom he would eventually buy out; and the wood panel manufacturer Duratex, which he co-founded with his son-in-law Eudoro Libânio Villela. A physician-turned-industrialist, Eudoro was married to Alfredo's adoptive and only daughter, Lourdes Arruda.

In 1956, when Duratex was experiencing some difficulties, Alfredo asked his nephew Olavo Egydio Setubal to help Eudoro stabilize the company. Olavo, the only son of Francisca Egydio de Souza Aranha and poet Paulo Setubal, had lost his father at the age of 14 and had since become Alfredo's *protégé*. (See **Exhibit 7** for the Egydio de Souza Aranha family tree). An engineer by training, Olavo had developed good management skills running Deca, a die casting company he founded in 1947, and which he would eventually merge into Duratex 25 years later.

Olavo's success at turning Duratex around led Alfredo, in 1959, to ask his nephew to succeed him at running an even larger enterprise: the bank—by then renamed Banco Federal de Crédito—which had been publicly listed in the Bovespa stock exchange since it began operating in 1945. As in Duratex, Olavo would share the bank's command––and the same office––with his cousin-in-law Eudoro, who was 15 years older. "If you stay together, you will go far; if you separate, you will be left with small companies," were Alfredo's parting words to the two of them.

When Alfredo died in 1961, leaving Eudoro and his family as the largest shareholders, Eudoro became Chairman of the bank, and Olavo took full charge of its day-to-day operations. Despite his lack of experience in banking, Olavo brought with him the analytical rigor and innovative management techniques that would become a hallmark for Itaú. Many years later, his son Roberto evaluated his father's contribution as follows: "My father brought to the world of banking, and to

Purchased by Carlos Gouvea (carlosgouvea@usp.br) on January 29, 2013

Itaú in particular, a great rationality into the decision-making process. His engineering background also brought another important thing: a clear vision of the need to create an adequate infrastructure for the development of the bank, particularly with respect to technology, which was emerging when he came to banking […] His competitors did not have a leader with that vision."[17] To implement his vision, Olavo surrounded himself by a team of engineers whose way of thinking and working was aligned with his. "A bank is not just made out of capital. Above all, it is built by people and ideas," he would often repeat.[18]

During the 1960s and 1970s, the bank underwent a major expansion, and the family business group diversified its activities into petrochemicals (through the acquisition of Elekeiroz) and information technology (with the creation of Itautec). In 1965, Banco Federal de Crédito merged with Banco Itaú, giving rise to Banco Federal Itaú. "Itaú," which means "black rock" in the local Tupi-Guarani language, was the name given by the native Indians to the part of the state of Minas Gerais where the bank was founded in 1944. In 1966, Banco Federal Itaú obtained the first license in the country to operate as an investment bank. After a series of mergers and temporary name changes, it finally settled on the name Banco Itaú in 1974. The same year, the holding company Investimentos Itaú, S.A., or Itaúsa, was created to bring the family's diversified group of businesses—over 50 different companies at the time—under a common structure that would centralize strategic decision-making in the group. In 1975, Eudoro moved from the chairmanship of the bank to Itaúsa's.

The year of 1975 also marked Olavo's career transition to the public sector, where he had the opportunity to play very significant roles: he was mayor of São Paulo from then until 1979, and Brazil's Minister of External Relations in 1985-1986. However, with Eudoro's retirement from the bank and the premature death of his son, Alfredo Egydio Arruda Villela, in 1982, a generational gap was created within the Villela branch of the family, which called for Olavo's return to the family business. In 1986, Olavo left his distinguished public service career to become Chairman of Itaúsa. Meanwhile, his fourth son, Roberto, started working at Banco Itaú and rose through the ranks until, in 1994, he was appointed CEO.

Having been trained as an engineer in São Paulo and at Stanford University, Roberto maintained the bank's focus on operational efficiency, reinforced by a thorough evaluation of any acquisition opportunities with the aid of a highly sophisticated analysis team led by Henri Penchas. Over the next 12 years, Itaú made a series of mergers and acquisitions that contributed very valuable assets from a strategic standpoint. Banco Francês e Brasileiro—the Brazilian subsidiary of Credit Lyonnais—brought to Itaú the high-net-worth client segment brand "Personnalité;" Banco do Estado do Rio de Janeiro (Banerj) and other privatizations in which Itaú participated increased its scope both geographically and in the type of customers served, which started including public-sector clients; BankBoston's operations in South America expanded Itaú's presence in the region.

Key to the success of these acquisitions was Itaú's unique approach to deal making. Penchas commented: "Itaú had many partners over its history, and we knew how to choose them and treat them. We never argued, and maintained good relationships with them even when merger talks fell through. We analyzed everything and talked about the details beforehand; both Olavo and Roberto paid attention to what was important for the other partner—keeping the name, keeping the chairmanship." The acquisition of BBA in 2002 was particularly representative of Itaú's partnership philosophy; to preserve BBA's strong brand recognition in wholesale banking, a separate subsidiary called Itaú-BBA was created, merging BBA with Itaú's own wholesale banking operations into what instantly became the largest wholesale bank in Brazil. At Itaú-BBA, Roberto shared ownership, control, and management with BBA's founder Fernão Bracher and his son Cândido, thus sowing the seeds for future partnership-style mergers.

Purchased by Carlos Gouvea (carlosgouvea@usp.br) on January 29, 2013

Under Roberto's leadership, the bank's public image was modernized to the point that, starting in year 2000, Itaú was consistently rated by Interbrand as the most valuable brand in Brazil. In 2002, this image was further enhanced by Itaú's adoption of several best practices in corporate governance. First, it voluntarily adhered to Bovespa's Level 1, one of the three special listing segments created by the Brazilian stock exchange in 2000 to increase minority stockholders' rights.[19] Second, Itaú went well beyond the requirements of both this segment and Brazilian securities markets law by granting tag-along rights of 80% of the per-share price paid to the controlling shareholder in case of a control transfer not just to minority holders of common stock (which traded in Bovespa under the symbol ITAU3) but also to holders of preferred stock (which traded under the symbol ITAU4). Third, Itaú's preferred shares also began trading in the NYSE, in the form of ADRs, under the symbol ITU, which required the bank's compliance with the legal and disclosure requirements of both the NYSE and the U.S. Securities and Exchange Commission (SEC), including abiding by the 2002 Sarbanes-Oxley Act.[20] In 2003, both Itaú and Itaú-BBA became subsidiaries of Banco Itaú Holding Financeira, a newly-created financial holding company which remained controled by Itaúsa but superseded Banco Itaú as the publicly listed financial institution in the group. Itaúsa, in turn, was controlled by the family's private holding company, called ESA (for Egydio de Souza Aranha), of which 61.3% of all shares were held by the Villela family group and 38.7% by the Setubal group. (See **Exhibit 8** for Itaú's ownership structure, **Exhibit 5** for its board of directors, and **Exhibit 9** for Itaúsa and ESA's main shareholders).

Family Governance

As the years went by, other members of the Setubal and Villela branches of the Egydio de Souza Aranha family also joined the family business group as executives and/or at the board level. Alfredo Egydio Arruda Villela Filho, who was one of Itaú and Itaúsa two largest individual shareholders (the other one was his sister, Ana Lúcia), joined Itaúsa's board in 1995 and was appointed Vice Chairman of Itaú's in 2002. His first cousin Ricardo Villela Marino, who was trained as an engineer in São Paulo and at MIT, joined Itaú in 2002 and rotated around several departments before, in 2006, he was appointed Chief Human Resources Officer and CEO of Itaú's Latin American operations outside of Brazil. In 2008 he also joined the bank's board. Roberto's brother Alfredo Egydio Setubal became Itaú's Director of Investor Relations in 2003, and joined its board in 2007 and Itaúsa's board in 2008.

Ricardo Villela also played a critical role in the creation of a sophisticated family governance system that would coordinate and regulate the family's exercise of their rights and responsibilities as shareholders, encourage their more active participation in the family businesses, maintain harmony and unity across the two branches of the family and their individual members, and transfer the legacy and values built by Alfredo Egydio de Souza Aranha, Eudoro, and Olavo to future generations. Ricardo was a firm believer in the importance of family governance ever since, while studying at MIT, he had taken Professor John Davis's family business course at Harvard Business School and written a thesis on the subject under his guidance. Accordingly, he was the first to champion the establishment of a governance structure for his family.

Shareholders' behavior and relationships were formally regulated by shareholder agreements, for both ESA and Itaúsa, which established conditions for share sales, purchases, and transfers; decision-making bodies and processes; voting rules; and mechanisms for conflict resolution. "We are a group with engineers' characteristics. We need to be pragmatic. Sometimes we make decisions as engineers. In others we agree to agree," explained Alfredo Egydio Arruda Villela Filho.[21] The Villela and Setubal blocks were represented at ESA's Shareholder Assembly in proportion to their relative size (60: 40). However, the two blocks were entitled to equal representation at the six-person shareholder council, called the ESA Committee, whose members were required to understand the group's operating

Purchased by Carlos Gouvea (carlosgouvea@usp.br) on January 29, 2013

businesses in order to act as a link between the family shareholders and Itaúsa and its subsidiaries. The two family branches also had equal representation rights (three members each) at the Family Council, which served as a link between the family at large—whose main forum was the Family Assembly—and the operating companies, including the bank. The companies' boards of directors would discuss, support and implement the decisions of the ESA Committee and the Family Council. In turn, the companies' CEOs would inform or consult with the ESA Committee and the Family Council about their management decisions.

The ESA family governance system was anchored on a common mission and vision and a set of values that were shared by all the family across its different branches and generations. Antônio Jacinto Matias, another longtime executive at Itaú who was part of the management team that facilitated the transition from Olavo to Roberto—the "last of the old ones and the first of the new ones," as he liked to say—described some of those common values as he had seen them at play over the years: "pride in having created efficient organizations that add value to society; high ethical standards, including the rejection of political corruption; transparency; respect for parents and for people in general." In his view, "Roberto is a depositary of the family values, which for him are very important to preserve."

In August of 2008, Olavo Setubal passed away, leaving behind him a bank that was tied with its archrival Bradesco for the number-one largest in market capitalization in Brazil—$68.4 billion at its peak in May of 2008 or $46.7 billion at the end of September. As of the same date, the bank was the second-largest in total assets with $209.4 billion; $65.3 billion in total deposits, 2,854 branches serving 27 million clients, and 69,383 employees. (See **Exhibit 10** for Brazilian banks' market capitalization and **Exhibit 6** for Itaú's financial information). Olavo also left behind a conglomerate that, in addition to the bank, included four other publicly listed companies: Duratex, Elekeiroz, Itautec, and the holding company itself, Itaúsa. (See **Exhibit 11** for these companies' market values).

The Merger Talks

Starting in the mid 1990s, the Brazilian banking sector underwent a major consolidation, driven partly by the economies of scale and scope inherent to financial services, and partly by the wave of privatization of state-owned banks, which ended up in the hands of their private-sector rivals. However, the privatization process also facilitated the entry of foreign competitors, raising justified concerns among incumbents about increased competition on their turf. Such was the case, in particular, of Banespa's privatization and the reaction it triggered at Itaú and Unibanco.

Earlier Merger Attempts

In 1998, when Banespa's privatization was announced, Henri Penchas, then Executive Vice President of Itaú after a 30-year tenure at the bank, approached his long-time friend at Unibanco Israel Vainboim with the proposal that the two banks jointly acquire Banespa. Due to the risks it entailed, the idea did not appeal to Vainboim—an equally experienced executive at Unibanco who had been CEO of the bank from 1988 until 1992, and since then of Unibanco Holdings. Instead, Vainboim proposed: "why don't *we* merge?"[22] At the time, Itaú and Unibanco were respectively the second and third largest private sector banks after Bradesco, but with large size differences between them. Nevertheless, "they were already the two most similar banks in the market, because of their family control, vision, and culture," Penchas observed.[23] Another Unibanco executive, Marcelo Orticelli, confessed: "we were always looking up to Itaú as a model of performance. Bradesco was also a reference, as Santander would later be, but we always perceived Itaú as being superior."[24] On the other hand, Unibanco at the time had better customers, and a stronger wholesale banking

Purchased by Carlos Gouvea (carlosgouvea@usp.br) on January 29, 2013

operation—since Itaú's merger with BBA had not yet happened. Moreover, the two banks had also worked together harmoniously as partners at Credicard, a credit card company.

Under the projected deal structure, the two families would be equal partners in management as well as in ownership. Roberto and Pedro would be co-CEOs of the merged bank, with Olavo serving as Chairman. While Itaú was almost three times larger than Unibanco, Vainboim did a valuation of the family stakes in each of them and concluded they were very comparable. Despite the proposed merger's strategic value, it fell through because of design issues. As Vainboim would later put it, the two CEOs "*precisavam namorar* [they needed to date]."

Over the years that followed, Roberto and Pedro met twice again to revisit the possibility of a merger. Throughout those meetings, the original plan of a dual CEO structure remained, but the discussions began to sharpen around who would be responsible for what. Roberto would be in charge of retail banking, operations, and treasury, while Pedro would manage wholesale banking, insurance, private banking, and asset management—their respective areas of comparative advantage. In the meantime, the two CEOs also had merger discussions with other banks. Pedro, in particular, because of Unibanco's smaller size relative to its largest competitors, "knew the bank needed to grow. However, in such a competitive environment, where there had already been many acquisitions and there were no clear candidates left to acquire, much of the growth effort would need to be organic."[25] In fact, because of its size and its less clear continuity plan as a family business, Unibanco came to be perceived as "the most coveted bride in town," and was courted by Bradesco, Citibank, and ABN-Amro, among other suitors.

The Discussions Between the Families

Pedro and Roberto lived on opposite sides of the same square and could see each other's apartment through the trees. As competitors, they also met regularly at the meetings of Febraban, the Brazilian banking association. They thus saw each other quite frequently, but maintained a strictly professional relationship. In August of 2007, however, their relationship took a different turn. When Santander announced it would be participating in the acquisition of ABN-Amro as a means to take control of Banco Real, Pedro invited Roberto to dinner at his house to discuss what this would imply for both of them: for the first time in the history of Brazilian banking, a foreign bank with significant clout would be a serious contender for the top position in the industry. A merger between Itaú and Unibanco would aggressively respond to such a competitive threat by creating a national champion in Brazil. Moreover, such a merger would create the largest private financial group of the Southern Hemisphere, with a market capitalization among the top 20 in the world and the ability to compete with the largest world banks in the international arena. At that point, the merger talks between Roberto and Pedro were reignited in earnest.

The two CEOs met around 15 times over the 15 months that followed. To avoid rumors—particularly since some of their competitors also counted themselves among their neighbors—most meetings were held at Israel Vainboim's house in the nearby suburb of Morumbi. Vainboim, who traveled frequently, was never there.

The strategic rationale for the deal was powerful. The merger would create the dominant financial institution in Brazil, with leading market positions in virtually all segments. In some of those segments the two banks would complement each other, such as insurance and consumer finance (where Unibanco had the strongest franchises in Brazil) or auto loans (where Itaú had the number-one franchise). In other segments, like retail, wholesale, and investment banking, there would be a large degree of overlap, and hence significant potential for realizing cost-based synergies. While Roberto and Pedro were reluctant to quantify them, those synergies could exceed the 22% cost

Purchased by Carlos Gouvea (carlosgouvea@usp.br) on January 29, 2013

savings that their rival Santander had said it would be targeting in its acquisition of Banco Real. With Itaú and Unibanco's financials, a 25% reduction in the cost base of the merged entity would approximately translate into $12.6 billion increase in value, whereas a 10% reduction would translate into a $4.8 billion increase.[26] The combined institution would have market shares of 20% in assets, 19% in loans, 21% in deposits and funding, 21% in assets under management, 19% in branches, and 24% in pension plans.[27] The two merging banks also had complementary capabilities: Itaú was often praised for its efficient retail operations and its information technology systems, while Unibanco had distinctive customer service and human resource practices. As a result, the integration of the two banks' operations would yield not just a bigger, but also a better financial institution, well poised to expand its dominance beyond the Brazilian borders.

Early on it became clear that Pedro would only agree to a deal if structured in such a way that control would be shared on a 50/50 basis—despite the fact that Itaúsa's ownership stake in what would be a merged Itaú-Unibanco was significantly larger than the Moreira Salles family's by any reasonable valuation of their respective stakes. Yet under certain valuations, the Moreira Salles family would be a larger shareholder in the bank than either the Villela or the Setubal branches of the Egydio de Souza Aranha family, a position that Pedro felt strongly about. Because of the Setubal-Villela family history and their complex governance system, Roberto was used to sharing control, consulting with his family before acting, and deciding by consensus. Pedro, on the other hand, was used to deciding alone and only informing his brothers after the fact. Yet in a major departure from their earlier merger attempts, Pedro proposed that Roberto be the sole CEO, while he would serve as Chairman of the Board.

During over 40 hours of conversations, Roberto and Pedro had lengthy discussions about the culture of each of their banks and where they would like to go with the combined entity. In the process, the two men developed a relationship built on mutual trust, respect, and a shared vision for the future of the merged institution. "It was a construction process," said Roberto. Pedro added: "it was long and labor-intensive, but it wasn't difficult. We talked about what we would each need to give up, in the interest of what—what it was that we would need to build together."[28] While losing a competitor, he noted, "I gained a friend".[29] For Roberto, who, having shared the leadership of the bank with his father for many years, now felt lonely at the top, Pedro came to fill the void created by Olavo's death.

An agreement was reached relatively quickly on issues such as which lines of business each bank would prevail at, given their relative strengths: Itaú was stronger in both retail, wholesale, and investment banking as well as in auto loans, while Unibanco was stronger in the areas of insurance, treasury, credit cards and consumer finance. It was also agreed that the two banks' names would be part of the merged entity's formal denomination, Itaú Unibanco, but a marketing study would be conducted to decide what name should be used for branding purposes. Negotiations about deal structure and valuation were largely left to Penchas and Vainboim, who had many years of experience at structuring M&A deals for Itaú and Unibanco, respectively, and the full trust of their CEOs.

The road to the merger was not without bumps, however, and the discussions were interrupted and resumed on several occasions. One such roadblock was the area of human resources, which Pedro had always overseen at Unibanco since he joined the board, and throughout his tenure as CEO, personally traveling to U.S. universities to recruit the best talent, and implementing the latest personnel evaluation tools and stock-based compensation programs for the bank's executives. Accordingly, he insisted on keeping human resources at the merged entity under his watchful eye. Yet Itaú, which had very different human resource policies (with much longer employee tenures, for

Purchased by Carlos Gouvea (carlosgouvea@usp.br) on January 29, 2013

example), also prided itself on its competencies in this area, and had Ricardo Villela Marino in charge of it at the time of the merger talks, which put Roberto in a bind.

The Discussions Within the Families

The controversy over human resource management at the merged entity highlighted the fact that the decision to share control not only affected Pedro and Roberto, but also their respective families, as well as minority shareholders and employees. As Pedro noted, "it isn't just the trust that my brothers have in me. Now they also need to trust Roberto, just like the Setubal and Villela families need to trust me."[30] Roberto's constituency in that regard was larger and more complex—13 shareholders from two distinct branches of the family, multiple generations, and with different degrees of involvement in the family businesses. As he explained,

> The merger made sense both economically and for shareholders. For minority shareholders, it would be a deal like many others around the world, where they could benefit from the value created by synergies. For the family shareholders, who had always been interested in mergers where the family could add value as a controlling shareholder, Unibanco was a unique opportunity because of our multiple similarities: in our values—with respect to our families, the banks, and the country—; our histories; our fathers' lives; and our dreams. The key issue for family shareholders was whether they would be willing to share control.
>
> Historically, our family did not have control; it was gained over time. My father was part of a group of multiple shareholders. So I did not feel strongly that this was "my bank." For me, it was not just a quest for size but for good fit, not only operationally but also at a higher level. As a family, we had had many discussions about the pros and cons of a potential merger with a large competitor, but we had them in the abstract, before the Unibanco opportunity made them more concrete—and radical, in terms of sharing control.[31]

The decision to share control was particularly difficult for those family members who were senior executives at the bank, and therefore potential candidates to succeeding Roberto at the helm: on the one hand, they could aspire to some day lead what would be a larger and stronger bank; on the other hand, their chances of reaching that leadership position would likely be diminished by the fact that control would be shared with another family. At some point in the negotiations, Roberto called his brother Alfredo Setubal and his cousin Ricardo Villela Marino to a meeting to discuss the merger's potential implications for them. Both understood the tradeoffs well, and indicated that they were fully in agreement. The family shareholders who did not work at the bank trusted the management team, knowing its members had arrived there through a rigorous meritocracy. Thus, both the Setubal and Villela branches of the family expressed their unanimous support for the deal.

Ricardo Villela described how Roberto handled the communication with family shareholders during the merger negotiations:

> The ESA committee, which included Roberto, Alfredo, and Paulo Setubal as well as Alfredo, Ricardo, and Rodolfo Villela, was the "hard core" of the family shareholder group. Roberto would meet with the rest of the committee every 15 days, with Henri Penchas serving as a facilitator for those meetings. In addition, Alfredo Villela participated in two of the meetings between Pedro and Roberto.[32]

In his view, if it weren't for the family governance structure and mechanisms, and the trust they had forged within the family, "the deal wouldn't have happened."[33]

Purchased by Carlos Gouvea (carlosgouvea@usp.br) on January 29, 2013

Closing the Deal

The Events of October 2008

The global financial crisis provided the final catalyzer for the merger. Thanks to a stable base of time and demand deposits, a relatively low reliance on wholesale funding markets, and cautious credit policies, the leading banks in Brazil were largely insulated from many of the fundamental troubles suffered by their smaller competitors and by financial institutions in more industrialized countries.[34] Still, they did not escape the sharp decline in stock prices triggered all over the world by the bankruptcy of Lehman Brothers in September 2008. By October, the Brazilian market, too, was swamped by rumors of banks in difficulties. Even though local financial institutions were just discreetly exposed to losses on overseas-originated asset-backed securities and derivatives, and did not have material off-balance-sheet operations, an array of unconnected events triggered a wave of speculation against several banks, including Unibanco. As a result, Unibanco's market value dropped 50% in less than three weeks, including a 30% drop on a single day.[35] Marcelo Orticelli, who was then in charge of risk management for Unibanco, recalled those difficult days:

> As the global financial crisis began to unfold, our executive director Marcos de Barros Lisboa had made a point of increasing liquidity even at the expense of reduced profitability. As a result, there was enough of a cushion to make us confident in our ability to surmount the crisis. However, the external perception of our risk was much higher, which was dangerous because it could give rise to gossip and concerns among public shareholders. To make matters worse, AIG was a minority partner of Unibanco's in Brazil, and the bank suffered some negative reputation spillovers when AIG had to be bailed out by the U.S. government.[36]

The financial crisis thus gave Pedro strong incentives to close a deal for Unibanco. Yet a merger with Itaú was not the only alternative—a fact that Itaú was well aware of. Unibanco continued to be seen as a strategic target by most of its competitors, some of which "might very well have been willing to pay a higher price for it than Itaú," Matias commented. "Itaú could not afford to lose the opportunity and let another bank acquire Unibanco," he added. Moreover, as Penchas observed, "the niobium mine continued to be a strong generator of cash for Pedro and his brothers," thus giving them the ability to weather the crisis on their own if they so wished.

On Tuesday, October 28, Roberto and Pedro decided it was time to finalize and formalize their agreement. In a display of trust that was unheard of in deals of this nature and magnitude, Roberto suggested they use a single lawyer to draft the merger agreement on behalf of both parties. The lawyer of choice was Gabriel Jorge Ferreira, who was Unibanco's legal counsel but had previously held the same position at Febraban at the time when Roberto was its president. Equally unheard of, the formal agreement between the parties was reduced to a 14-page document, drafted by Ferreira in the record time of three days, and which purposely omitted any breakup provision. "We agreed to agree" was the motto that came to characterize the deal.

Over the weekend, Pedro, Roberto, and their closest advisors set up their field headquarters in Vainboim's house, where they worked around the clock. Matias, who was also present, recalled: "There was a very good atmosphere at the house, one of mutual trust, with legal counsel that both sides trusted, not trying to insert clauses to protect one party from the other. It was a group working together on a common project, wanting to build the same thing."[37]

Each party's due diligence on the other was carried out by two different teams within the same auditing firm, PWC—a fact that remained unbeknownst to the two teams until they, too, met at Vainboim's house to present their findings to their clients. Itaú's management and shareholders were

Purchased by Carlos Gouvea (carlosgouvea@usp.br) on January 29, 2013

favorably surprised to learn about the extent to which the market rumors about the bank's risk exposure had been exaggerated. As Pedro commented, "there was noise about Brazilian banks' having subprime debt… In our case, we heard numbers that would imply we had derivatives contracts with our clients half the size of our credit portfolio. We showed it was R$1 billion, not the R$30 or R$40 billion that people were talking about."[38]

On Sunday, Pedro and Roberto flew to Brasilia to seek the approval for the deal from the relevant authorities, the presidents of Brazil's central bank, Henrique Meirelles, and of Brazil itself, Luiz Inácio Lula da Silva, with whom they met at the airport on their way back to São Paulo. Both presidents expressed their support for what they saw as a positive contribution to the Brazilian financial sector and the country's economy as whole.

Roberto and Pedro then returned to Vainboim's house, where members of their respective families and top management teams were eagerly awaiting to see the deal signed. To conclude the ceremony, Vainboim appropriately treated his guests not just to French champagne but also to "*bem casados* [well married]," a dessert traditionally served at Brazilian weddings.

Deal Structure

The transaction was structured as follows. All common and preferred shares of Unibanco and Unibanco Holdings would be exchanged for shares of the equivalent class in Banco Itaú Holding Financeira, the only surviving entity, which would be renamed Itaú Unibanco and would continue to have two classes of stock publicly listed under a new set of ticker symbols.[39] To ensure that control would be shared on an equal basis between the two families despite the different value of their share contributions, a new, privately held, holding company was created called Itaú Unibanco Participações (IUPAR), which would hold 51% of the merged bank's voting capital. IUPAR's own voting capital (common shares), in turn, would be split 50/50 between Itaúsa and the Moreira Salles family, while its nonvoting (preferred) shares would be held in their entirety by Itaúsa—an implied control premium of 25%. In addition, Itaúsa would directly hold 36% of the common shares in Itaú Unibanco. **Exhibit 12** shows Itaú Unibanco's resulting ownership structure. Common shares would continue to trade only in Bovespa, under the symbol ITUB3, while preferred shares would continue to trade on both Bovespa, under the symbol ITUB4, and the NYSE, under the symbol ITUB. **Exhibit 13** shows the exchange ratios for Unibanco's six classes of equity securities.

For the preferred shares, units, and ADRs of Unibanco and Unibanco Holdings, the exchange ratio was calculated based on the market average of price of the units, and of the preferred shares of Banco Itaú Holding Financeira in Bovespa's last 45 sessions before the deal's closing on October 31. According to Trevisan, a local firm that was hired to officially evaluate the methodology, the 45-day period was an adequate compromise between the need to capture the economic reality of financial markets at the time and the desire to avoid the noise created by the excessive volatility of those markets. The units were used instead of their underlying securities at Unibanco and Unibanco Holdings because that was where most of the liquidity was concentrated.[40] As a result, while in theory the price at which each unit traded should have been equivalent to the sum of the prices of one preferred share of Unibanco and one preferred share of Unibanco Holdings, it was typically higher. As of the end of October 2008, each pair of Unibanco's preferred shares were trading at a 15% discount relative to the price of one unit, due to their lower liquidity.

The exchange ratio for the common shares of Unibanco and Unibanco Holdings that were held by the Moreira Salles family through their holding company E. Johnston was negotiated between the parties, and included a control premium relative to both the preferred shares (because of their lack of voting rights) and the price at which the common shares had been trading on Bovespa. Because

Purchased by Carlos Gouvea (carlosgouvea@usp.br) on January 29, 2013

Unibanco had not given any tag-along rights to its minority holders of either common or preferred stock, the Moreira Salles family had the ability to keep the entire premium in dollars to themselves. This fact translated into a higher premium per share than what the Villela and Setubal families could expect to receive for their controlling block in Itaú, given that unlike Unibanco, they had given tag-along rights to all of their minority shareholders. Nevertheless, in the end Pedro, too, decided to allow Unibanco Holdings and Unibanco's minority holders of common stock to tag along and receive for their shares a price (implicit in the exchange ratio) that was equal to the one he and his brothers would receive for their controlling stake.

Based on those ratios and the number of shares outstanding of each class, the value attributed to Unibanco in the transaction was of almost $14 billion, which represented a 43% premium relative to the market cap of Unibanco as of October 31, 2008 (based on the closing price of the units, which represented 71.5% of all shares outstanding). The valuation was ratified by the fairness opinions of Rothschild and Morgan Stanley, who were respectively engaged for that purpose by Unibanco and Itaú. The implied valuation ratios were 2.3 times its reported book value, or an adjusted price-to-earnings ratio of 9.2.

The Morning After

On Monday, November 3, 2008, the 100,000 employees of either Itaú or Unibanco opened their emails to find out that they would now be working for *both* Itaú and Unibanco. In addition, the two banks and their holding companies jointly filed a relevant fact notice with the Comissão de Valores Mobiliários (CVM), the Brazilian Securities and Exchange Commission. The announcement was well received by the stock market (see **Exhibit 14** for the share price increases of the different classes of shares). Reflecting the partnership spirit of the agreement, the deal was not announced as either an acquisition or a merger, but as a joint venture—a characterization that raised considerable skepticism in the business community. Three years down the road, however, when asked about which of the three terms best described the reality about the deal's nature, Ricardo Villela Marino would respond: "it was a merger of banks, an acquisition of systems, and a partnership of families."

Purchased by Carlos Gouvea (carlosgouvea@usp.br) on January 29, 2013

Exhibit 1 Selected Mergers and Acquisitions in the Brazilian Banking Industry between 1994 and 2008

	Itaú	Unibanco	Bradesco	ABNAmro (Real)	Santander	Banco do Brasil
1994						
1995	Banco Francês e Brasileiro - BFB[a]	Banco Nacional				
1996		Fininvest				
1997	BANERJ		Credireal / BCN / Itabanco		Banco Geral do Comércio	
1998	Banco del Buen Ayres[e] / BEMGE	Banco Dibens	BCR / Banco Pontual	Banco Real / BANDEPE	Banco Noroeste	
1999			BANEB / Continental			
2000	Banestado	Bandeirantes[b] / Credibanco[c]	Boavista Interatlantico		Meridional / BANESPA	
2001	BEG	Banco Investcred	Banco Postal	PARAIBAN		
2002	BBA Creditanstalt		Mercantil / BEA / BES			
2003	Banco Fiat		BBV Brasil / Zogbi	Sudameris		
2004		Banco BNL do Brasil	BEM			
2005			BEC			
2006	BankBoston[d]		AMEX Brasil			
2007			BMC		ABN Amro Real	
2008			Ágora			Banco Nossa Caixa

[a] BFB was a subsidiary of Crédit Lyonnais
[b] Bandeirantes was a subsidiary of Caixa Geral de Depósitos
[c] Credibanco was a subsidiary of Bank of New York
[d] BankBoston was a subsidiary of Bank of America
[e] The bank was located in Argentina

Source: Annual Reports, Institutional Websites and Riskbank available at www.riskbank.com.br/anexo/fusoes.pdf, accessed on February 24, 2012.

Purchased by Carlos Gouvea (carlosgouvea@usp.br) on January 29, 2013

Exhibit 2 Selected Financial Information for Top Brazilian Banks (in $ billions as of December 31, 2007 and September 30, 2008)

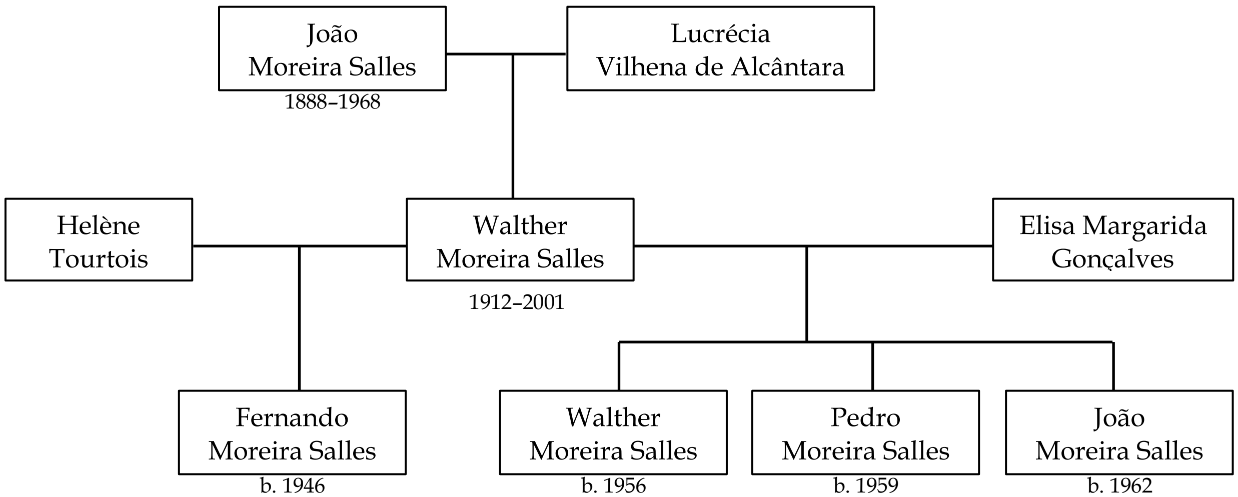
	Assets		Equity		Deposits		Loans	
	2007[a]	2008[b]	2007[a]	2008[b]	2007[a]	2008[b]	2007[a]	2008[b]
Banco do Brasil	201.9	232.3	13.6	14.5	106.2	120.1	84.0	97.3
Itaú Unibanco				44.8				
Itau	163.0	209.4	17.4	17.6	46.6	65.3	44.1	52.5
Unibanco	83.5	92.3	6.7	6.8	26.9	30.0	28.3	30.9
Bradesco	160.5	190.8	14.3	18.1	56.8	73.3	65.4	70.1
Caixa Econômica Federal	140.9	144.2	5.9	6.3	80.0	82.2	31.5	36.1
Santander Real		173.3		26.2		63.8		57.0
Santander	65.6		5.2		22.1		22.2	
ABN Real	89.5		6.8		30.2		33.0	
Total	1,144.7	1,628.7	141.0	157.4	523.1	601.1	488.5	546.7

[a] $1.00 = R$ 1.7713
[b] $1.00 = R$ 1.9143
[c] Santander formally acquired ABN Real in August 2008

Source: Compiled by casewriters from Brazilian Central Bank, "50 maiores bancos e o consolidado do Sistema Financeiro Nacional," available at http://www4.bcb.gov.br/fis/TOP50/ingl/Top502008092I.asp, accessed on February 24, 2012.

Purchased by Carlos Gouvea (carlosgouvea@usp.br) on January 29, 2013

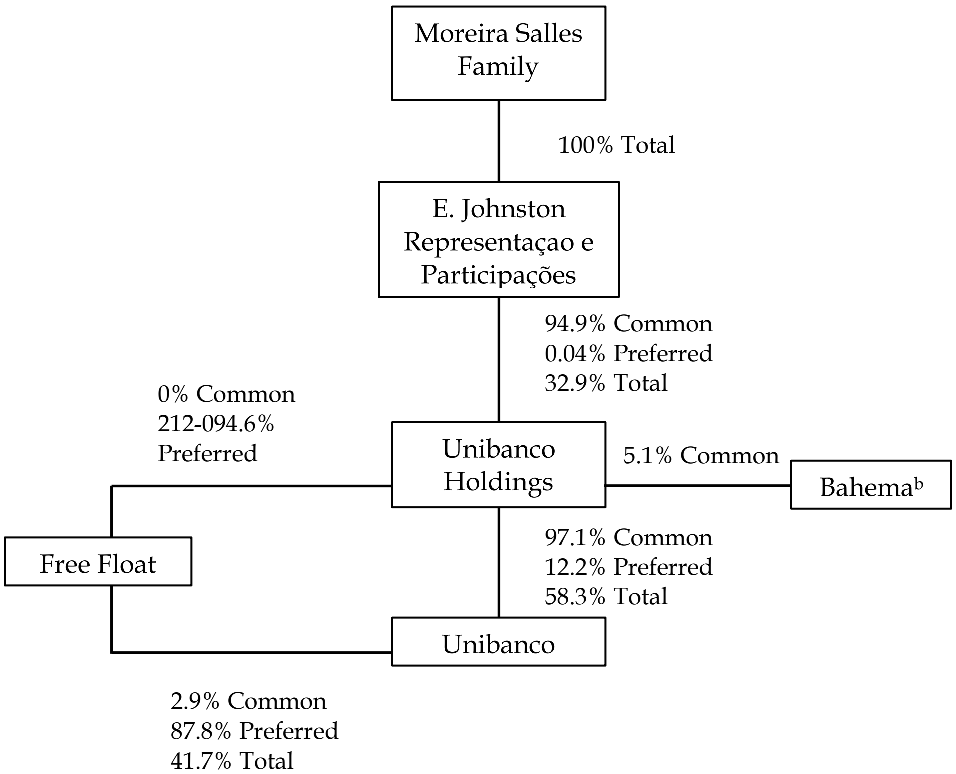
Exhibit 3 Moreira Salles Family Tree



Source: Itaú Unibanco Espaço Memória.

Purchased by Carlos Gouvea (carlosgouvea@usp.br) on January 29, 2013

Exhibit 4 Unibanco Ownership Structure as of June 30, 2008[a]



Source: Itaú Unibanco´s Material Fact – Itaú and Unibanco Joint-Venture, Executive Summary, November 3, 2008and casewriters' analysis based on numbers of shares reported on Unibanco Holdings SEC Form 20-F, accessed through www.sec.gov/edgar on March 14, 2012.

[a] Percentages are of shares outstanding (net of treasury shares)

[b] Bahema was a financial investor in Unibanco (and later on, in Unibancho Holdings) since 1986

Purchased by Carlos Gouvea (carlosgouvea@usp.br) on January 29, 2013

Exhibit 5 Itaú and Unibanco's Board of Directors in 2008, Before the Merger

Itaú's Board of Directors	Unibanco's Board of Directors
Chairman of the Board	**Chairman of the Board**
Carlos da Câmara Pestana	Pedro Malan
Vice Presidents	**Vice Presidents**
Alfredo Egydio Arruda Villela Filho	Pedro Moreira Salles
Jose Carlos Moraes de Abreu	
Roberto Egydio Setubal	**Members**
	Arminio Fraga
Members	Israel Vainboim
Alcides Lopes Tapias	Francisco Pinto
Alfredo Egydio Setubal	João Dionisio
Fernão Carlos Botelho Bracher	Guilherme Affonso Ferreira
Geraldo José Carbone	Joaquim Francisco de Castro Neto
Guilhermo Alejandro Cortina	Pedro Luiz Bodin de Moraes
Gustavo Jorge Laboissiere Loyola	
Henri Penchas	
Maria de Lourdes Egydio Villela	
Persio Arida	
Roberto Teixeira da Costa	
Sérgio Silva de Freitas	
Tereza Cristina Grossi Togni	

Source: Itaú and Unibanco Annual Reports.

Purchased by Carlos Gouvea (carlosgouvea@usp.br) on January 29, 2013

Exhibit 6 Itaú and Unibanco Selected Financial Information (in $ billions as of December 31, unless otherwise indicated)

	Itaú			Unibanco		
	2008	2007	2006	2008	2007	2006
Selected Financial Statements Data (in US$ billions)						
Assets						
Current Assets	147.83	128.19	74.34	58.90	62.09	34.34
Long Term Assets	42.23	34.72	21.59	18.32	21.05	13.03
Fixed Assets	2.79	3.56	2.14	2.05	1.31	1.17
Total Assets	**192.85**	**166.47**	**98.08**	**79.27**	**84.46**	**48.54**
Liabilities & Stockholder´s Equity						
Current Liabilities	110.91	97.72	55.44	39.85	51.18	26.24
Long Term Liabilities	67.11	51.20	31.01	33.32	25.50	17.23
Equity	14.83	17.55	11.63	6.10	7.77	5.07
Total Liabilities & Stockholder´s Equity	**192.85**	**166.47**	**98.08**	**79.27**	**84.46**	**48.54**
Income Statement Data						
Operating Revenues	16.44	19.02	13.57	7.92	8.90	6.94
Operating Expenses	6.83	7.90	5.77	3.67	4.41	3.37
EBIT	4.98	6.47	4.00	2.03	2.19	1.63
Recurring Net Income	3.30	4.05	2.90	1.22	1.47	1.03
Financial and Operational Indicators						
Assets/Equity & Minority Interest	**13.00**	**9.48**	**8.44**	**12.99**	**10.86**	**9.57**
Recurring ROAA	2.1%	2.7%	3.4%	1.7%	2.1%	2.3%
Recurring ROAE	25.2%	27.2%	32.6%	22.8%	23.9%	22.9%
Efficiency Ratio[a]	47.3%	47.7%	48.9%	55.5%	59.0%	56.9%
Market Capitalization (in US$ billions)[b]	47.3	62.6	43.2	14.2	29.7	15.3

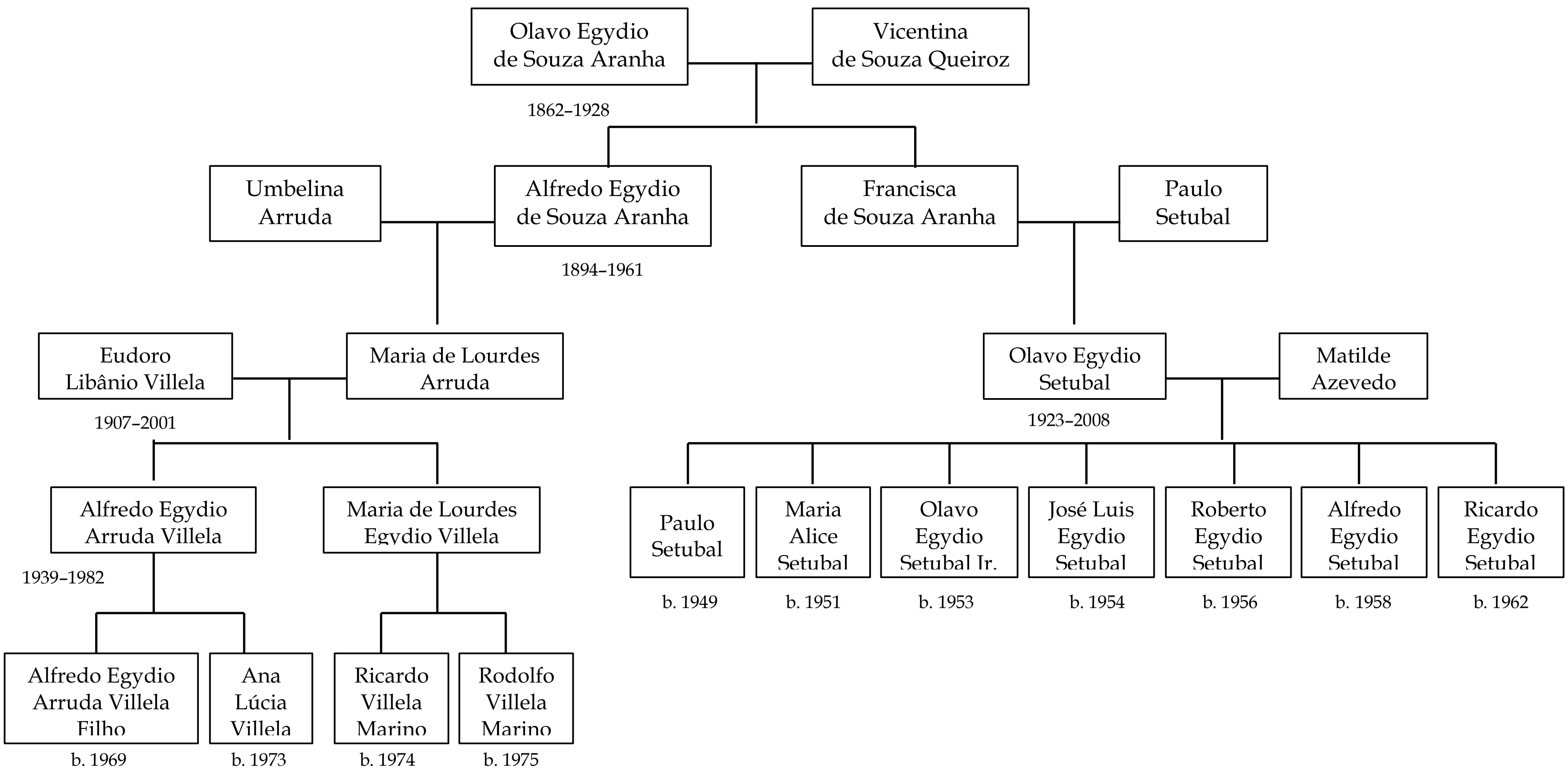
Source: Itaú and Unibanco Financial Statements and Itaú Unibanco Investor Relations Department.

[a] The efficiency ratio is calculated as the sum of all non-interest expenses divided by revenues.

[b] 2008 Market capitalization figures are as of September 30, 2008.

Purchased by Carlos Gouvea (carlosgouvea@usp.br) on January 29, 2013

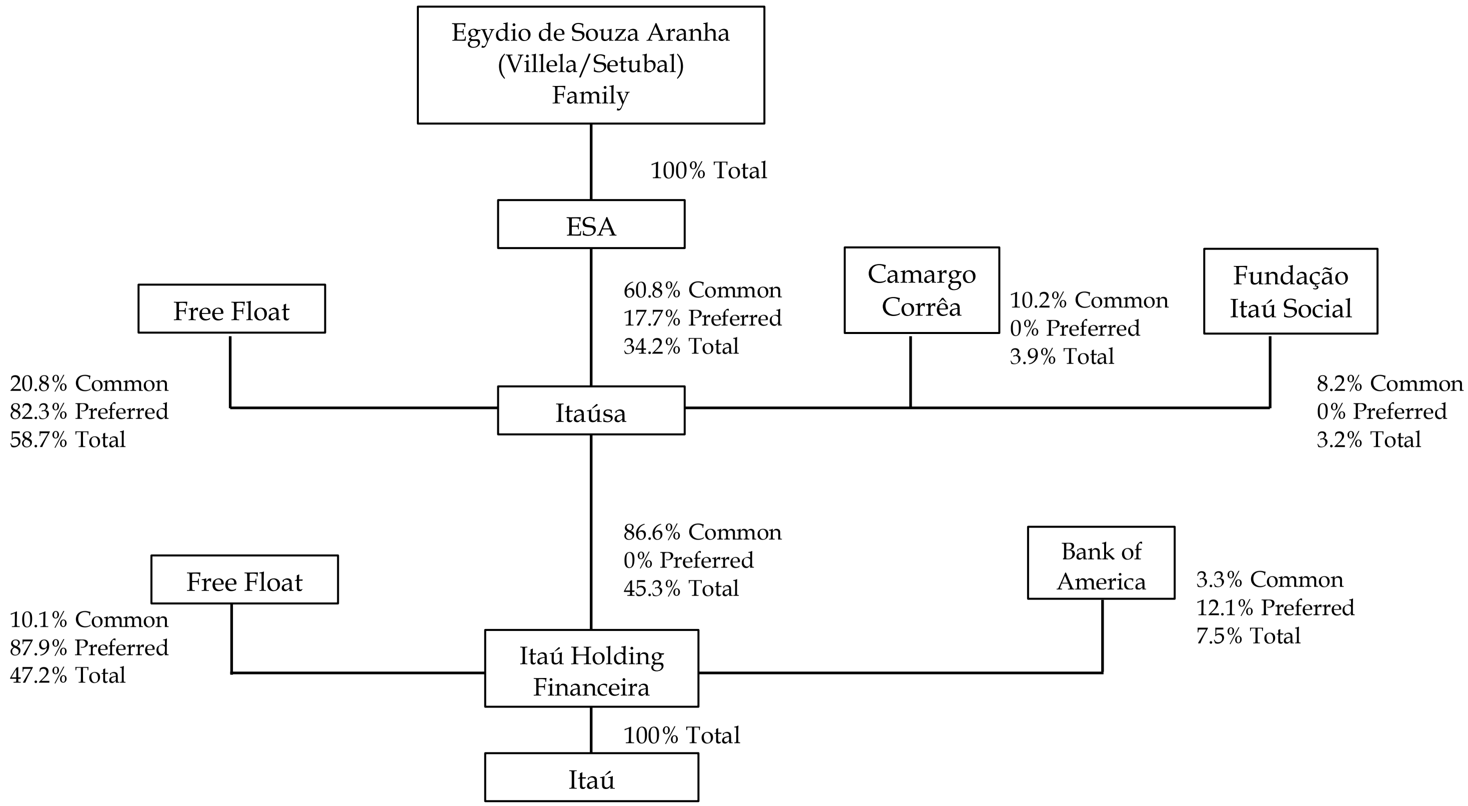
Exhibit 7 Egydio de Souza Aranha Family Tree



Source: Itau Unibanco Espaço Memória.

Purchased by Carlos Gouvea (carlosgouvea@usp.br) on January 29, 2013

Exhibit 8 Itaú's Ownership Structure as of September 30, 2008[a]



[a] Percentages are of shares outstanding (net of treasury shares).

[b] Caixa de Previdência dos Funcionários do Banco do Brasil.

Source: Banco Itaú Holding Financeira, Management Discussion and Analysis and Complete Financial Statements, Third Quarter 2008; Itaúsa investor relations webpage, and casewriters' analysis based on numbers of shares reported on Itaú Holding SEC Form 20-F, accessed through www.sec.gov/edgar on March 14, 2012.

Purchased by Carlos Gouvea (carlosgouvea@usp.br) on January 29, 2013

Exhibit 9 Shareholders included in Itaúsa Shareholders´ Agreement dated May 10, 2011[a]

Name	Number of Common Shares of Itaúsa	Ownership Percentage
I - Villela Group	**598,660,839**	61.321101%
1. Maria de Lourdes Egydio Villela	129,959,824	13.311844%
2. Alfredo Egydio Arruda Villela Filho	199,025,438	20.386266%
3. Ana Lúcia de Mattos Barreto Villela	199,025,438	20.386266%
4. Ricardo Villela Marino	35,325,069	3.618363%
5. Rodolfo Villela Marino	35,325.070	3.618363%
II - Setubal Group	**377,611,320**	678899%
1. Paulo Setubal Neto	63,539,815	6.508412%
Carolina Marinho Lutz Setubal	1,126	0.000115%
Julia Guidon Setubal	1,126	0.000115%
Paulo Egydio Setubal	1,126	0.000115%
2. Maria Alice Setubal	34,535,793	3.537517%
Fernando Setubal Souza e Silva	1,126	0.000115%
Guilherme Setubal Souza e Silva	1,126	0.000115%
Tide Setubal Souza e Silva Nogueira	1,126	0.000115%
3. Olavo Egydio Setubal Júnior	56,241,555	5.760848%
Bruno Rizzo Setubal	1,126	0.000115%
Camila Rizzo Setubal	1,126	0.000115%
Luiza Rizzo Setubal	1,126	0.000115%
4. Roberto Egydio Setubal	56,023,195	5.738481%
Marina Lucas Setubal	1,126	0.000115%
Paula Lucas Setubal	1,126	0.000115%
5. José Luis Egydio Setubal	55,742,364	5.709716%
Beatriz de Mattos Setubal	1,126	0.000115%
Gabriel de Mattos Setubal	1,126	0.000115%
6. Alfredo Egydio Setubal	55,767,083	5.712248%
Alfredo Egydio Nugent Setubal	1,126	0.000115%
Marina Nugent Setubal	1,126	0.000115%
7. Ricardo Egydio Setubal	55,743,493	5.709831%
Patrícia Ribeiro do Valle Setubal	1,126	0.000115%
8. O. E. Setubal S.A.	6	0.000001%
Subtotal—Family members' Individual Shareholdings	**976,272,159**	**100.000000%**
III – ESA Company[b]	**48,755,790**	
Total Itaúsa Controlling Shareholders' Group	**1,025,027,949**	

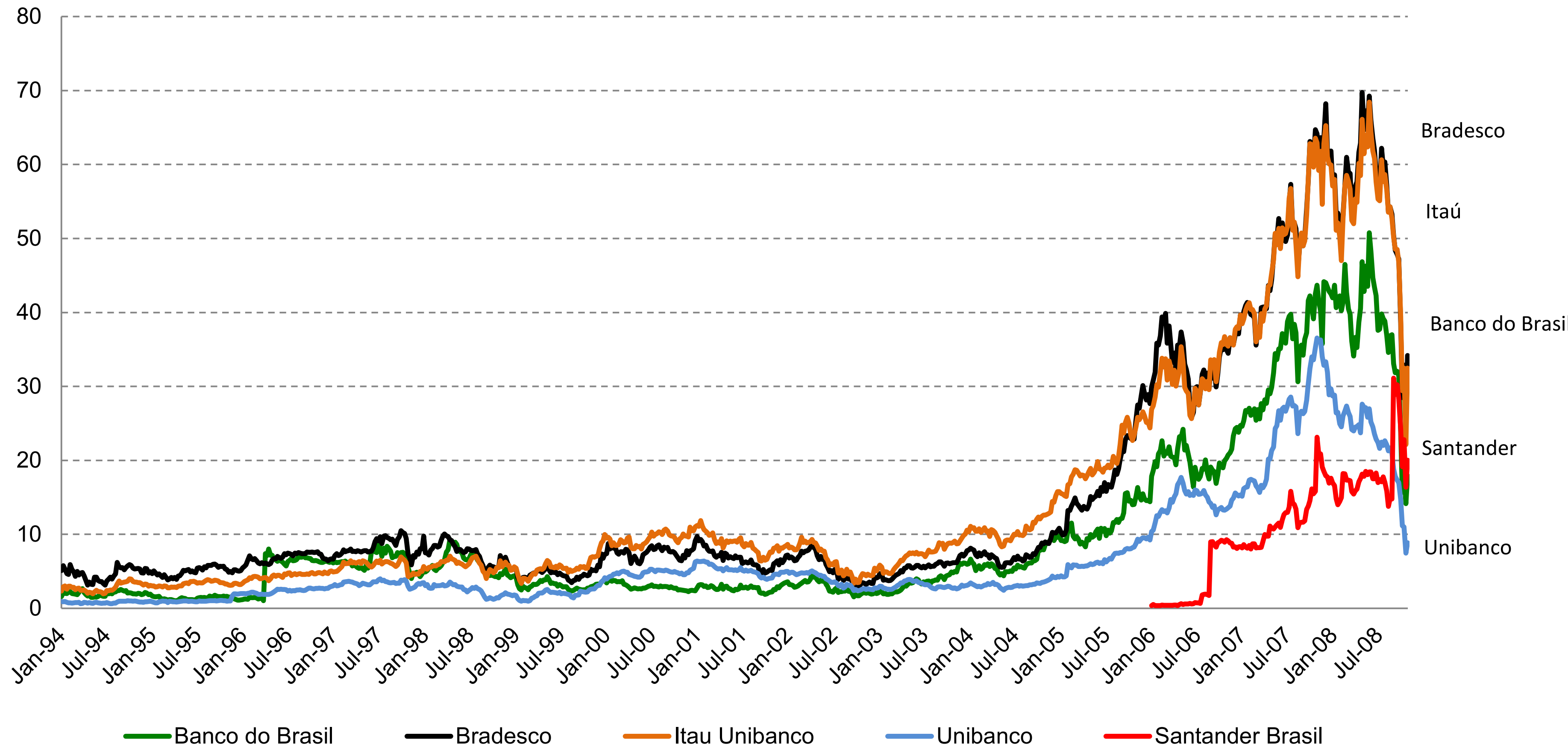
Source: Itaúsa Shareholders' Agreement, May 10, 2011.

[a] The first Itaúsa shareholder agreement was signed on 1982 and renewed several times, the latest of which were on 2001 and 2009. At the time of signing the 2009 agreement, the shares previously owned by Olavo Setubal were still held by his estate.

[b] ESA Company's capital is divided into 976,272,159 shares, which are allocated among individual members in the same proportion as the subtotal of the same amount (and the percentages) shown on this table.

Purchased by Carlos Gouvea (carlosgouvea@usp.br) on January 29, 2013

Exhibit 10 Market Capitalization of Largest Brazilian Banks from January 7, 1994 to November 7, 2008 (weekly data in $ billions)



Source: Compiled by casewriters from Bovespa.

Purchased by Carlos Gouvea (carlosgouvea@usp.br) on January 29, 2013

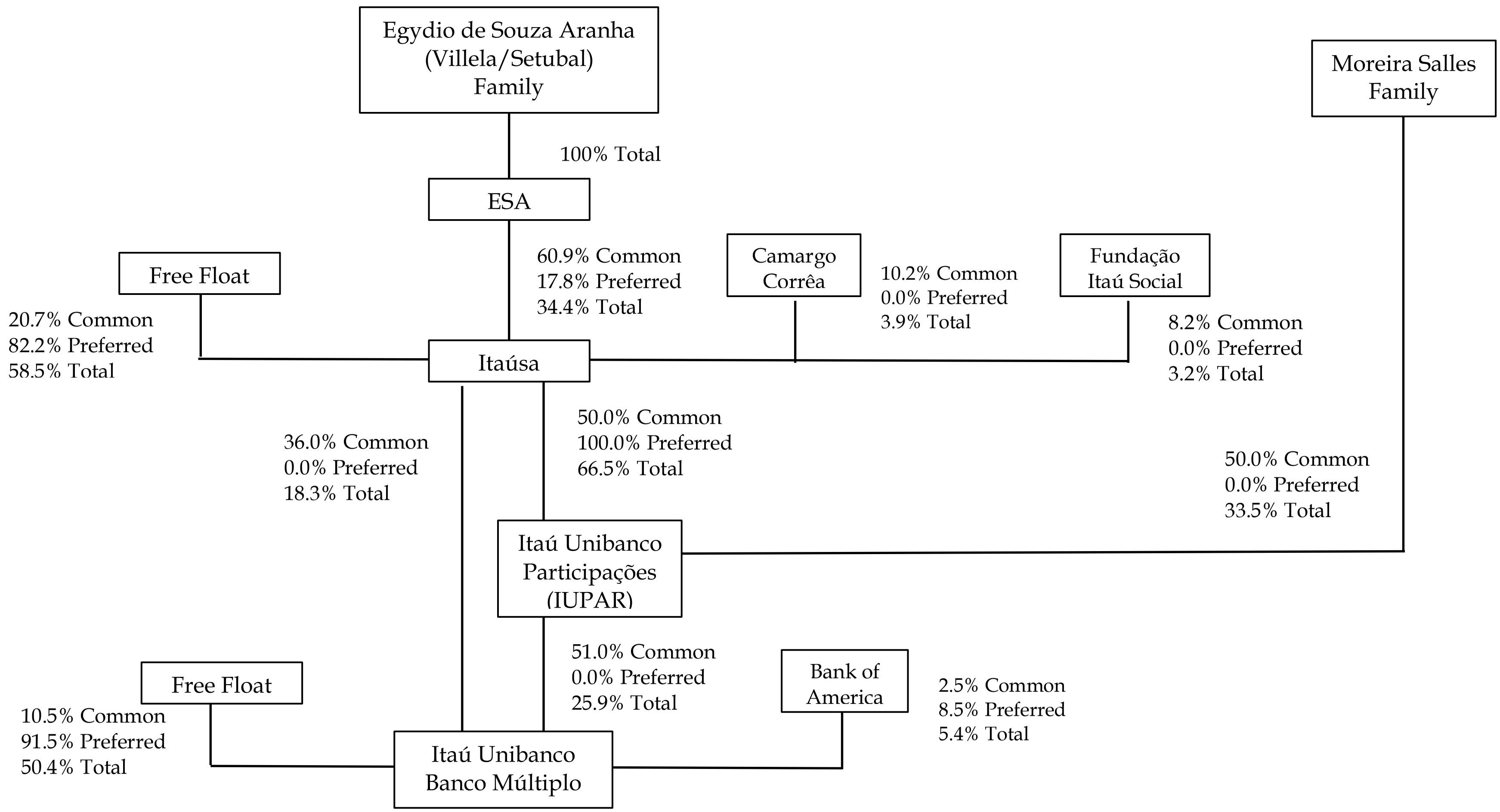
Exhibit 11 Market Value of Itaúsa and its Publicly Listed Subsidiaries as of December 2008 (in $ millions)

Company	Total Number of Shares (millions) (A)	Price of Most Liquid Share ($) (B)	Market Capitalization ($ millions) (C) = (A) x (B)	Itaúsa's Ownership Stake in Company (%) (D)	Market Value of Itaúsa's Stake ($ millions) (E) = (C) x (D)
Banco Itaú Holding Financeira S.A.	4,095,428	11.15	45,647	35.55%	16,230
Duratex S.A.	127,964	6.15	786	41.81%	329
Itautec S.A.	11,651	12.81	149	94.01%	140
Elekeiroz S.A.	31,485	6.41	202	96.45%	195
Remaining Net Assets and Liabilities (F)					414
Itaúsa Sum-Of-The-Parts Value as of 30/12/2008 (G)					17,307
Itaúsa Market Value as of 30/12/2008 (H)	3,881,480	3.42		-	13,277
Premium or Discount (%) (I) = (H)/(G) - 1					-23.29%

Source: Itaúsa's 2008 Annual Report. Figures have been converted into U.S. dollars using the real-to-dollar exchange rate of 2.34167:1 reported in www. oanda.com for December 31, 2008.

Purchased by Carlos Gouvea (carlosgouvea@usp.br) on January 29, 2013

Exhibit 12 Itaú-Unibanco´s Ownership Structure after the Merger (as of November 2008)[a]



Source: Itaú Unibanco 2008 Annual Report; Itaúsa investor relations webpage, and casewriters' analysis based on numbers of shares reported on Itaú Holding SEC Form 20-F, accessed through www.sec.gov/edgar on March 14, 2012.

[a] Percentages are of shares outstanding (net of treasury shares).

Purchased by Carlos Gouvea (carlosgouvea@usp.br) on January 29, 2013

Exhibit 13 Merger Exchange Ratios for Unibanco and Unibanco Holding´s Equity Securities

Unibanco or Unibanco Holdings Security	Class of Shares of Itaú Unibanco Holding to be Exchanged for	Number of Securities to be Exchanged for each Share of Itaú Unibanco Holding
Unibanco Common Shares (UBBR3)	Common (ITUB3)	1.1797
Unibanco Preferred Shares (UBBR4)	Preferred (ITUB4)	1.7391
Unibanco Holdings Common Shares (UBHD3)	Common (ITUB3)	1.1797
Unibanco Holdings Preferred Shares (UBHD6)	Preferred (ITUB4)	3.4782
Units (UBBR11)	Preferred (ITUB4)	3.4782
ADRs (UBB)	ADRs (ITUB)	0.17391

Source: Itaú Unibanco´s Material Fact – Itaú and Unibanco Joint-Venture, Executive Summary, November 3, 2008.

Purchased by Carlos Gouvea (carlosgouvea@usp.br) on January 29, 2013

Exhibit 14 Share Price Increases from Friday, October 31, 2008 to Monday, November 3, 2008

Company	Type of Security	Ticker Symbol	Share Price Increase
Itaú	Common Shares	ITAU3	2.26%
	Preferred Shares	ITAU4	16.27%
	ADRs	ITAU	13.83%
Itaúsa	Common Shares	ITSA3	13.04%
	Preferred Shares	ITSA4	14.31%
Unibanco	Common Shares	UBBR3	121.13%
	Preferred Shares	UBBR4	99%
Unibanco Holdings	Common Shares	UBHD3	n/a[a]
	Preferred Shares	UBHD6	n/a[a]
Unibanco and Unibanco Holdings	Units	UBBR11	8.95%
	ADRs	UBB	10.13%

Source: Casewriters' calculations based on data from Bovespa.

[a] Unibanco Holdings common and preferred shares were last traded in 2005 and 2006, respectively.

Purchased by Carlos Gouvea (carlosgouvea@usp.br) on January 29, 2013

Endnotes

[1] Milton Gamez, "Uma nova geração na Itaúsa," Isto É Dinheiro, February 5, 2010, available at http://www.istoedinheiro.com.br/noticias/3010_UMA+NOVA+GERACAO+NA+ITAUSA

[2] Includes internet banking accounts

[3] Marcelo Telles, "Santander Brasil", Equity Research, Credit Suisse, November 16, 2009.

[4] Economist Intelligence Unit, The Economist, accessed March 1, 2012

[5] Redecard Reunião APIMEC 2009, November 25, 2009 available at https://www.mzweb.com.br/redecard/web/arquivos/Redecard_Apresentacao_20091125_pt.pdf, accessed on March 22, 2012.

[6] Central Bank of Brazil, http://www4.bcb.gov.br/fis/TOP50/ingl/Top501995120I.asp, accessed on February 29, 2012.

[7] Casewriters' interview with Pedro Moreira Salles, São Paulo, February 17, 2012

[8] Unibanco's preferred shares were entitled to a 10% higher dividend than common shares. Unibanco Holdings' preferred shares were divided into two classes. Class-A preferred shares, which were held in their totality by Commerzbank, were entitled to a 10% higher dividend than common shares. Class-B preferred shares, which were publicly traded, were entitled to the highest of: (i) a minimum annual dividend of R$0.30 per thousand shares, or (ii) 3% of the book value per share. In 2003, following the conversion by Commerzbank of all its Class-A preferred shares into Class-B preferred shares, the latter were simply renamed preferred shares.

[9] As stipulated by Brazilian law, there is a minimum percentage of shares that entitles minority shareholders to appoint or dismiss one member of the board of directors: 15% of all voting shares for common shares, or 10% of all shares for preferred shares.

[10] In 1976, Brazilian law began established a mandatory bid rule in the case of a control transfer for all outstanding common shares (but not for preferred) at the same price and terms as the controlling-block shares. In 1997 this rule was revoked, but preferred shares became entitled to receive dividends at least 10% higher than those of common shares unless they were already entitled to a fixed or minimum dividend. In 2001 the law was once again ammended, reinstating the mandatory bid rule for a minimum of 80% of the control block price both for common shares and for publicly traded preferred shares that did not meet either the 10% dividend premium condition or offer a prioritary minimum dividend of 3% of book value per share.

[11] In 2001, the 50% minimum threshold for preferred shares as a fraction of total capital was extended to all corporations newly created or going public after the law was passed, but those that had already been public with a dual-class share structure were grandfathered into the prior two-thirds threshold.

[12] At the time of the offering, each ADR represented 500 units. However, in 2004 there was a 100:1 reverse stock split for all of Unibanco and Unibanco Holdings share classes (both common and preferred, including the units), which brought the ADR exchange ratio to 5 units per ADR. In 2006, Unibanco increased its capital through a 1:1 stock dividend, which brought the exchange ratio to 10 units per ADR.

[13] Banco Bandeirantes was then controlled by the Portuguese Caixa Geral de Depósitos (CGD), which received approximately 10% of Unibanco's common shares in return

[14] Casewriters' interview with Pedro Moreira Salles, São Paulo, February 17, 2012

[15] The Basel Ratio is a measure of the financial strength of a bank, expressed as a ratio of its capital to its assets. The Bank for International Settlements' Basel committee for international banking supervision has drawn up global standards for capital adequacy and also established criteria for the classification of loans in terms of risk. The Basel committee's target capital adequacy ratios—how much capital a bank should set aside as a proportion of risky assets—are called Basel ratios, or sometimes BIS ratios or just capital ratios.

[16] "Unibanco – 80 anos de sucesso", Itaú Cultural - Espaço Memória

Purchased by Carlos Gouvea (carlosgouvea@usp.br) on January 29, 2013

[17] Ignácio de Loyola Brandão and Jorge Okubaro, *Desvirando a página: A vida de Olavo Setubal*. Global Editora, São Paulo, 2008, p. 174

[18] Ibid., p. 176

[19] In 2000, Bovespa introduced three special listing segments, known as Levels 1 and 2 of Differentiated Corporate Governance Practices and Novo Mercado, aimed at fostering a secondary market for securities issued by Brazilian companies by encouraging such companies to voluntarily abide by corporate governance best practices and disclosure requirements in addition to those already imposed by Brazilian law. The three segments are listed above in the order of the extent to which they enhance stockholders' rights and the quality of information provided to stockholders (lowest to highest).

[20] Each Itaú ADR initially represented 500 preferred shares. In 2004, the bank effected a reverse stock split whereby each two ADRs became equivalent to one preferred share. In 2005, another stock split brought the exchange ratio between them to 1:1.

[21] Milton Gamez, "Uma nova geração na Itaúsa", Isto É Dinheiro edição 644, February 2010, available at http://www.terra.com.br/istoedinheiro-temp/edicoes/644/sumario.htm, accessed on March 2, 2012.

[22] Casewriter's interview with Israel Vainboim, New York, February 27, 2012

[23] Casewriters' interview with Henri Penchas, São Paulo, February 15, 2012

[24] Casewriters' interview with Marcelo Orticelli, São Paulo, February 16, 2012

[25] Ibid.

[26] Mario Pierry and Tito Labarta, "Itaú Unibanco: How much of the synergies are priced in?," Deutsche Bank Global Markets Research, November 10, 2008, accessed via Investext on January 16, 2012. Figures have been converted into U.S. dollars by casewriter using a 2.1463:1 real-to-dollar exchange rate reported on www.oanda.com for November 10, 2008

[27] Ibid.

[28] Ibid.

[29] Leonardo Attuch and Milton Gamez, "Feitos um para o outro," Isto É Dinheiro, November 12, 2008, available at http://www.istoedinheiro.com.br/noticias/3424_FEITOS+UM+PARA+O+OUTRO

[30] "Itaú e Unibanco fazem acordo de acionistas," Valor Econômico, November 10, 2008, accessed via Factiva on February 3, 2012

[31] Casewriters' interview with Roberto Setubal, São Paulo, February 17, 2012

[32] Casewriters' interview with Ricardo Villela Marino, São Paulo, February 16, 2012

[33] Ibid.

[34] Economist Intelligence Unit, The Economist, Brazil: Country Finance – Main Report, April 1, 2011, accessed March 4, 2012

[35] Economatica and Bloomberg

[36] Casewriters' interview with Marcelo Orticelli, São Paulo, February 16, 2012

[37] Ibid.

[38] Leandro Modé, "Itaú terá mais ações, mas poder será compartilhado," O Estado de São Paulo, November 4, 2008, accessed via Factiva on February 3, 2012

[39] The bank's full name was initially Itaú Unibanco Banco Múltiplo, which was changed to Itaú Unibanco Holding in April 2009

Purchased by Carlos Gouvea (carlosgouvea@usp.br) on January 29, 2013

[40] Out of a total of 1.04 billion Unibanco Holdings preferred shares outstanding as of October 31, only four shares were not in the form of units, and the latest trade in them had been two years before. Out of the same total of Unibanco preferred shares outstanding, only 54 million of them (5.2%) were not in the form of units.

Purchased by Carlos Gouvea (carlosgouvea@usp.br) on January 29, 2013