Itaú Unibanco

International Conference Call - First Quarter 2018 Earnings Results

May 2nd, 2018

Operator: Good morning ladies and gentlemen, welcome to Itaú Unibanco Holding conference call to discuss 2018 first quarter results.

At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session and instructions will be given at that time. If you should require assistance during the call, please press the star key followed by zero.

As a reminder, this conference is being recorded and broadcasted live on the investor relations website at www.itau.com.br/investor-relations. The audio webcast works with Internet Explorer 9 or above and Chrome, Firefox and mobile devices (iOS 8 or above and Android 3.0 or above). A slide presentation is also available on this site.

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

With us today in this conference call in São Paulo are **Mr. Candido Bracher**, Executive President and CEO; **Mr. Caio Ibrahim David**, Executive Vice President, CFO and CRO, and **Mr. Alexsandro Broedel**, Group Finance Director and Investor Relations Officer.

First, **Mr. Candido Bracher** will comment on 2018 first quarter results. Afterwards, management will be available for a question and answer session.

It is now my pleasure to turn the call over to **Mr. Candido Bracher**.

Candido Bracher: Good morning, thanks for joining us in this first quarter of 2018 earnings conference call.

Before we go into key financial figures and performance, I would like to briefly talk about the macroeconomic scenario, the regulatory framework and the changes in the competitive environment in this first quarter. During this period, we observed the continuity of the trend started in the second half of 2017, as a more favorable moment in the Brazilian economy and a steady and gradual recovery of the economic activity.

This improvement is a direct result of the Brazilian Central Bank stability to control inflation, which enabled a further decrease in the Selic rate. The more benign economic environment led to an increase in the confidence levels of individuals and companies, notably in the SME segment, that continued to improve credit demand in the period. Besides that, the Brazilian Central Bank has acted following its BC+ agenda, aiming at the reduction of the inefficiencies of the financial system, as demonstrated by the recent measure related to the reserve requirements. The combination of all these factors, coupled with better asset quality indicators, allows gradual and sustainable spreads reduction.

Now, on the competitive arena, we continue to see increase in competition mainly from newcomers and Fintechs. We like competition because it stimulates us to permanently seek the improvement of our products and services, all this aiming at our clients' satisfaction.

Turning out to **slide 3**, here we highlight the key performance figures from our first quarter results. The recurring net income reached R$6.4 billion in the quarter, which resulted in a recurring ROE of 22.2%; an increase of 30 basis points when compared to the fourth quarter. In the same period, the recurring ROE for our Brazilian operations was 20 bps higher and reached 23.7%.

As you know, the first quarter is usually the weakest quarter in the year for the loan book, mainly due to the credit card portfolio. I'm glad to say that the seasonal impact in our credit card portfolio was less pronounced than in previous years, and save for this portfolio and large companies, all the other portfolios presented growth in the quarter leading to 0.2% growth in the total loan book in the period. This positive development is a result of the increased credit demand from our clients.

Now, taking a more detailed look at our results, we presented, first, lower financial margins with clients mainly due to the lower number of calendar days this quarter; commission, fees and results from insurance operations declined 3.4% in the quarter, mainly due to seasonal effects. It's important though to highlight that year over year fees increased 7.3%. The margin and fees contraction were more than compensated by the decline in cost of credit as a result of the lower delinquency ratio in Brazil, both in individuals and in the SMEs portfolio. I also highlight the decrease of 7.9% in non-interest expenses.

Now, on **slide 4** we present our first quarter income statement. This quarter, the decrease in financial margins with clients and in commissions was more than compensated by the reduction in cost of credit and in non-interest expenses, as I mentioned in the previous slide. These movements in the quarter led to an increase of 12.7% in our income before tax and minority interests, and 2% in our recurring net income when compared to the fourth quarter. So, the income before tax and minority interests increased by 12.7%; 2.2% was our recurring net income because, as you see, the tax rate increased.

Let me just highlight here that we are calculating income taxes at a 45% rate, while valuing our deferred tax asset at a 40% tax rate; in line with the current legislation.

On **slide 5** now we show the evolution of our net income and ROE over the last seven quarters. The figures show the positive evolution of our profitability, especially when compared to our cost of equity.

On **slide 6** our business model chart, in which we breakdown the consolidated income statement in: income earned in operations that bare credit risks, including its related fees; income from trading operations; income from insurance and services; and excess capital over regulatory requirement.

Let me point out that the capital allocated to these activities correspond to the target capital of our risk appetite, which, as you know, indicates a tier I of at least 13.5%.

The insurance and services business lines continue to be the main driver behind our value creation, and this quarter the credit business created value mostly as a result of the lower credit cost. You can see that on the credit column the first quarter 2018 value creation of R$0.2 billion.

On **slide 7** we present our credit portfolio breakdown. On the last three months, the portfolio grew 0.2% and the individual's portfolio, as previously mentioned, the only portfolio that showed contraction, was the credit card due to seasonality, typical of the first quarter. All the other credit lines showed positive evolution in the quarter.

This trend is related to the resumption of consumer confidence that resulted in increased demand for credit. I highlight the increase of 3.9% in personal loans and of 0.7% in mortgage loans. I also want to emphasize another quarterly growth of our vehicle portfolio, this time of 1.7%.

The stronger demand was also a key driver for the growth in the very small, small and medium companies' portfolio, which increased 1.9% in the period. Looking at the past 12 months, the portfolio grew 2.4%. Here we have the positive impact of the acquisition of Citi's retail portfolio in Brazil, the portfolio would have grown 1.3% if it were not for this effect. This was mainly due to the retail portfolio, especially on consumer credit lines and also to our SMEs' portfolio.

Now, on the negative side, we continue to see a subdued demand on large corporates, as expected, leading to a decrease of 1.9% in the quarter. The main reason for this movement is related to a very healthy demand for corporate debt from the capital markets, which has enabled companies to access cheaper sources of funding with longer maturities.

Now on **slide 8** we are presenting for the first time our credit origination and private security insurance in Brazil. So, it's an account of our credit origination. We do not intend to show this every quarter because there are not that significant changes every quarter, here we make a yearly evolution of it, so that you can have a long-term view of how was the growth in our credit origination.

So you see that in the years before the crisis, 14 and 15, we had a stable credit origination in these two years. Then we dropped 35% in 16, started to recuperate in 7% in the first quarter of 17, and now growing 17% in the first quarter of 18. This in total credit. And we can see that this increase in credit origination is led mainly by individuals - you see that we are back to 99, almost to the same level we had in the first quarter of 14, still below the level of origination we had in the first quarter of 15 - and it's also led by very small, small and middle market companies, where we see an increase, we are now at 92% of the origination we used to have in the first quarter of 14. And looking at the trend we have reasons to believe that the trend is still positive and we will keep on growing credit origination for these companies.

On the other hand, we see that on the corporate sector, credit origination continues to lag. A significant part of the explanation comes from the left chart on the bottom right, where we show a very healthy increase in private securities issuance, which are now, in the first quarter of 18, almost twice as much as what they were before the crisis, in the first quarter of 14, having decreased after that to a level which was 34% of that of the first quarter 14, and now we are more than five-times more than what we had in the first quarter of 16 in capital markets.

So, I think that this may be a permanent factor now, and that the corporate portfolio is not expected to grow as we are seeing the growth in individuals and SMEs' portfolio.

Going now to **page 9**, the net interest margin and financial margin with clients, we present here our net interest margin and also the impacts in our first quarter financial margins with clients when compared to the previous quarter. Our gross net interest margin remained stable and once again it was negatively affected by the lower Selic rate, not only in our liabilities margin and in our own working capital, but also in the reduction of spreads.

However, these effects were compensated by a change in our credit mix towards higher-yield products. Despite the stability, the reduction in cost of credit caused the risk-adjusted net interest margin to grow 30 bps in the quarter.

Going to **slide 10** now, we present the evolution of our margin with the market. We had a positive quarter with an increase of 20.9% when compared with the previous quarter, reaching R$1.7 billion. The better-than-expected performance was related to the trading book, which benefited from the volatility in the period and by the gain of R$90 million from the sale of B3 shares.

Moving to **slide 11**, we present our delinquency ratios and both the 90 days and the 15 to 90 days NPLs were stable in the quarter. Despite the stability of the 90-day NPL, we highlight the important decrease of 30 basis points in the individuals, and of 20 basis points in the very small, small and medium-sized companies in Brazil. These decreases were compensated by the increase of 80 points in the corporate ratio, which is related to the exposure of a client that, in the previous quarter, was in the 15 to 90-day NPL. This exposure was already adequately provisioned.

Our 15 to 90 days NPL of the individual's portfolio increased 20 points in the quarter. This deterioration is related to the seasonal concentration of bills and expenses for individuals, such as annual taxes on cars, housing, education costs and end-of-the-year credit card bills, among others. Nevertheless, it is important to highlight that the seasonal deterioration was smaller than it has been in the previous three years.

On **slide 12**, we present the evolution of our NPL creation. Our total NPL creation increased in the quarter and reached R$5 billion. The increase is mainly related to the exposure of a large corporate client that migrated from the 15 to 90-day NPL, as mentioned, which was already provisioned, as I mentioned in the previous slide. The dotted line indicates that NPL, excluding the mentioned case, would be 4.5 billion.

Now on the positive side, the NPL creation of our retail portfolio continues to improve nominally, decreasing for the third quarter in a row and has reached the lowest level since 2014.

On **slide 13**, we present the evolution of provisions for loan losses and cost of credit. The decrease in our provision for loan losses in this quarter is mainly related to the improvement in asset quality of the retail portfolio in Brazil. In the wholesale portfolio in Brazil, despite the slight increase, it continues to perform as expected and, as I mentioned before, the increase in the 90-day NPL did not affect our results.

I'm glad to mention that the ratio of cost of credit to the total risk reached 2.5% this quarter, the lowest level since 2014.

On **slide 14** we present our coverage ratio that reached 236% this quarter. As I had explained in previous conference calls, the coverage ratio goes down if a company to which we have made precautionary provision defaults, and the NPL increases without affecting our profit and loss, and that was the case this quarter. The dotted lines indicate the NPL excluding the case I mentioned previously in this presentation.

In the long-term, the coverage ratio will go down not only due to events similar to what we had this quarter, in which a company defaults, but it will also go down if the companies improve, and we are able to revert the provisions. In this case, with a positive impact in our P&L. However, in the short-term, coverage ratio may even increase if none of these events materialize and we have a reduction of the 90-day NPL balance.

On **slide 15**, we see that commissions and fees and results from insurance operations decreased 3.4% when compared to the previous quarter. This performance was mainly a result of the decrease of 6.2% in credit card fees, which is seasonally impacted, and by the reduction of 19.8% in advisory and brokerage fees related to our investment bank, which despite a good volume of operations in the first quarter was below the record level verified in the previous quarter.

These reductions were partially offset by the increase of 6.5% in asset management fees associated with the growth of the asset under management and higher performance fees, and also by the increase of 3.1% in current account services due to increased volume of transactions and client base.

Turning now to **slide 16**, I show here the decrease of 7.9% of our non-interest expenses in the period, mainly related to the typical seasonality of the first quarter. But I want to highlight our annual performance in this line. Excluding the impact of the consolidation of the Citibank operation and the expenses of our Latin American operations, the annual growth of the noninterest expenses was 1%, 170 basis points below the inflation in the same period, once again demonstrating our strict cost control.

Now I move to **slide 17**, here I'll comment on our capital ratios. After having reduced our fully loaded tier 1 capital according to our stated policy to 13.5% after the payment of dividends, we finished the quarter with a level of 14.5% due to the first quarter profit and our additional tier 1 issued in March 2018, which is pending approval by the Brazilian Central Bank. Lastly, it is important to say that our additional tier 1 capital issued in December 2017 was approved by the Central Bank.

Now, on **page 18**, in addition to the disclosure of our financial results, I'd like to present the distribution of added value in the quarter. During this period, we added R$17.4 billion to society that helped to boost the economy and to stimulate the transformational power of thousands of people. Of that value, 14% was designated to our more than 120,000 direct shareholders and more than 1 million indirect shareholders in Brazil through investment funds; 32% was destined to taxes, fees and contributions; 28% to our employees; and 24% to investments in our operations.

So, with this I conclude this presentation and we can go now to the questions that you may have.

Question-and-answer Session

Operator: Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question, please press the star key followed by the one key on your touchtone phone now. If at any time you would like to remove yourself from the questioning queue, press star 2.

Our first question comes from Philip Finch, UBS.

Philip Finch: Thank you, Mr. Bracher, for the presentation. I have two questions, please. The first is regarding your asset quality or provisions specifically. You mentioned that there is a seasonality as we saw with the pickup in 15 to 90-day NPL ratio. Now, with that in mind, your provisions net of recoveries came in at R$3.3 billion in the first quarter, if you annualize that, that suggestes that we are running at probably the low-end of your R$12 to 16 billion guidance for the full year. So when I'm trying to gauge here the possibility that provisions actually do end up at the low-end of your guidance or even below, given that Q1 is seasonally adjusted or impacted.

And the second question is regarding your dividend policy. Can you give us an update on this, given the expectations of loan growth, your latest ROE performance of 22%? And in light of the issuance of the second tranche of additional tier 1 capital of US$750 million that you did back in March. Thank you.

Candido Bracher: Thank you Philip for your questions. So, the first one concerning asset quality, indeed, I think we had a good quarter in terms of provisions and, I mean, this reinforces our belief that our guidance is correct. At this moment in time, I think it's too soon to say, to state whether we will stay in the middle of the target, below, or in the bottom or in the top of it. I just think, I mean, it was a good quarter in terms of provisions and we are comfortable with the guidance we have given in the beginning of the year.

As to the dividend policy, once again, our dividend policy is to, at the beginning of the year, to evaluate what we have as investment plans, growth perspectives, profit perspectives, and distribute the capital so that we will have a tier 1 of 13.5%. This continues to be our policy, as you see this year we went back to the 13.5% in the beginning of the year, and now we have grown to 14.5 because of the results and Tier 1 issuance.

We don't intend to make changes during the year, so as we approach the end of the year, we will review all these perspectives here and we will distribute the dividends so that we come back to the 13.5% additional tier 1, taking into consideration, as I said, possibilities of investments, eventual possibilities of change in the regulation and the capital regulation, and our growth prospects for the year.

Philip Finch: Thank you, Mr. Bracher. Just a quick follow-up. The 13.5% figure you just mentioned, does that include or exclude the additional tier 1 capital?

Candido Bracher: It includes the additional tier 1 capital, which, as you know, cannot be more than 1.5%. So, it would be at least 12% of our core equity tier 1 and complemented by additional tier 1 until the level of 13.5%.

Philip Finch: Excellent. Thank you very much indeed.

Candido Bracher: You are welcome.

Operator: The next question comes from Jorge Kuri, Morgan Stanley.

Jorge Kuri: Hi, good morning everyone. I have two questions for me. The first one is: can you help us understand what you are seeing on the credit demand side? You know, those charts that you have on your presentation about credit origination are useful, but I wanted to understand, you know, if those are the numbers that you were expecting at the beginning of the year, or if credit is actually slower than expected. Certainly the macro environment has proven a bit tougher than people expected as consumption numbers for GDP have been coming down throughout the year.

So I wanted to see if what you are seeing is below what you expected. What do you think is holding you back? And at what point do you think we are going to start to really see an acceleration of credit towards, you know, numbers that can really drive your balance sheet and your P&L, of course?

And then the second question is on net interest margins. Where are we in the process of the contraction of margins, Selic rate has fallen more than, I guess, what people expected, certainly more than what you had originally in your guidance for the year. So I wanted to see how many more quarters do you think of compression we will see? And if you can quantify that, where do you think means are going to bottom up? Thank you.

Candido Bracher: Thank you Jorge for your questions. First, on the credit demand. Credit demand for individuals and SMEs is in line, even a bit better than what we had anticipated the growth in demand for these two groups. For corporates, it is still a bit frustrating, I think. And we don't expect really much improvement in the corporate credit demand this year, especially being an election year, and due to the uncertainties in the economy we believe that corporate will wait to have a more clear scenario before deciding on their investment plans and borrowing.

So, to answer you, I believe that overall credit demand is as we expect it, mainly a bit below, better in individuals in SMEs, a little worse in corporate.

Your question concerning the net interest margin - you asked me how many more quarters of contraction of the net interest margin - let me just emphasize there was no contraction of the net interest margin in this quarter. I mean, we had a stable interest margin in this quarter. You were right when you pointed out that the Selic dropped, it dropped below our initial expectation… it didn't drop yet below our initial expectations, but it is expected to drop below our initial expectations now, in the next Copom meeting.

On the other hand, the mix in portfolio is coming better than we expected because of the fact that I just mentioned, that individuals and SMEs portfolios are outgrowing the corporate portfolio. So, despite we are seeing a reduction in spreads for the same type of loans, the mix provides for a growth in the net interest margin offsetting, partially, the effect of the Selic rate.

Jorge Kuri: Thank you for that. So just to clarify, so that means that you are expecting net interest margins to remain flat the rest of the year? Is that the right way to think about it?

Candido Bracher: I expect them to be within our guidance, that we provided in the beginning of the year.

Jorge Kuri: Thank you.

Candido Bracher: You're welcome.

Operator: The next question comes from Mario Pierry, Bank of America Merrill Lynch.

Mario Pierry: Good morning everybody. Let me ask you two questions as well. The first one is related to your headcounts. We continue to see your headcounts, especially in Brazil, increasing, we do understand that you have the incorporation of Citi's employees here in the fourth quarter, but even if we go back and we look throughout last year, your headcounts was increasing every quarter, while I think most of your peers were seeing a decline in trend. So, I'd just like to understand, like, what is your view in terms of headcount going forward, especially given all the investments in technology that the bank is making?

Second question is related to the Redecard, or Rede, operations. We saw POS terminals again down 20% year-on-year, it seems there is significant pressure there. Can you just, you know, tell us about your strategy in this segment and how you plan on protecting market share? Thank you.

Candido Bracher: Thank you Mario for the questions. Actually, the two of them are somehow linked. When you asked about the number of employees, yes, it has grown last year, not only because of the acquisition of the operations of Citibank, but also because we have invested in hiring people for Rede, especially to cater the non-account holders with the bank, and we also hired some people for the branches in order to get a better balance and a better performance in fulfilling labor legislation.

These investments are made, so I don't expect the number of employees to keep on increasing. There is yet a couple of hundred employees that we still need to hire, but they will be around this level, I think, throughout the year.

Now concerning Rede, as you correctly pointed out, the number of POS reduced in this quarter and I think this is a trend which we are trying to resist, but that is a very difficult market in which we are, I mean, with new entrants, fierce competition, including price competition and so on. Our strategy here has been to invest in making packages to the account holders, I mean, making a compound offer of services to the account holders who have our Rede, and to increase the sales force to the normal account holders, to the 'open sea', as we call it. We are also working with other products, which we are beginning to offer in machines, we are beginning soon, new machines and with lower rates also.

Mario Pierry: Okay. So just to be clear then, on Rede, we saw one of the main players recently announcing significant price reductions. Is that something also that you are contemplating, that you are doing? And if you want to penetrate this lower… I guess lower income segment that we have seen new entrants there gaining a lot of market share, is that what you meant when you said you have new machines? Is that what you meant that you are trying to penetrate this market?

Candido Bracher: Yes, that's precisely it. So, I mean, we are preparing ourselves to penetrate this market as well.

Mario Pierry: Okay, thank you.

Candido Bracher: You're welcome.

Operator: The next question comes from Carlos Macedo, Goldman Sachs.

Carlos Macedo: Hi, good morning gentlemen, thanks for taking questions. So, first question, both on asset quality. First question: could you give us some color, you know, your NPL ratio for consumer and lending individuals is about as low as it has ever been, or at least certainly in the last several years, but there's been a big change in mix, and that helped. Can you give us some color how the lines are behaving individually? So, payroll, auto, credit cards and other lines, personal loans, so that we get an idea of maybe how much more it could improve beyond just the mix effect?

Second: it's quite clear that the main reason why you have the NPL covers that you have is because of the corporate book where the coverage, you know, is excluding this latest effect over 100%, and obviously there is a lot of discretion that you have that you can use to, you know, basically assess the credit worthiness of the borrowers in that segment. How is that process moving ahead given that you've had economy not thrive, but at least bounce back? Are you seeing more upgrades in credit scores that could possibly lead to, you know, more reversals in these provisions? I mean, I think of the excess provisions as defined by the Central Bank, you already reversed something like 800 million in the last two quarters. Is that something that we could see more of it if the ratings for the companies that you lent to go up? How should we think about that?

Candido Bracher: Carlos, thanks for your questions. Concerning the first one, on asset quality, you are right, it is improving considerably because we have a better mix, with higher growth aligned with better credit quality. But, besides that, we can say that credit quality is improving also individually in every single line of the portfolio: vehicles, individuals, credit cards, everything.

We are very satisfied with the evolution of our credit models and the use we have been making of artificial intelligence to improve the performance. We think this may be one of the reasons behind this improvement in every line of the individual's portfolio.

Your second question on NPL coverage. Here, as I mentioned, I mean, this quarter we had one company which entered into default, went above 90 days, and was already provisioned for, so we lose that provision to cover this company. This is something which may happen in other cases, and in other cases what will happen with the excess provisions we have is that they will put to the excessive really, because the companies will improve, and we will be able to reverse them.

Right now, we are making some improvements in ratings, I mean, the economy is improving, these companies are generally improving, and we feel very comfortable with the level of coverage we have. I mean, it has been a comfortable level for some time and it's showing to be more comfortable as the economy improves.

Carlos Macedo: Thank you, Candido. Just going back to the first question, as you said, the NPL ratio is as low as it's been in a long time as a whole, I'm just trying to get a little bit more… is there more room based on the historical levels to improve the individual NPL ratios so that you could see even better quality in your consumer loans to go forward? The individual, I mean by individual line, sorry.

Candido Bracher: Let me answer you this way, Carlos: they have been improving for some time and we are not seeing nothing that indicates a reversal of this trend. But they are coming to a level so low that we imagine that somewhere in the near future we will have them leveling at a given level.

Carlos Macedo: Perfect. Thank you.

Candido Bracher: You are welcome.

Operator: Our next question comes from Rafael Frade, Bradesco.

Rafael Frade: Hi, good morning all. I have two questions. The first one, going back to the slide that you showed the origination for retail in for SME, could you give us a sense of how the tenor of those originations have been improving? My perception is that, for example, in SMEs we are seeing an increase in demand most by shorter lines, so it's hard to grow the portfolio with this. So I would like to get a sense of how the tenor of the origination has been evolving.

And the second question would be related to the fees. When I tried to remove what would be the impact of Citi on the year-on-year comparison, the impression is that fees could be running a little below the guidance. So just to confirm if that's the case and where do you think that may be the weakest part on it? Thank you.

Candido Bracher: Thank you for your questions, Rafael. On the first one, concerning SMEs, yes, you are right, we are also witnessing this reduction in the average maturity of loans to SMEs. Despite that, the combination of the two effects, I mean, the higher origination and the short-term maturities, they still account for an increase in the total balance of these loans.

Concerning fees, I'm not sure I understood your question because Citibank is already considered in our guidance and, as I said, we are comfortable with the guidance we have supplied on fees growth.

Rafael Frade: Okay. I understand when we look for the year-on-year comparison your fees and insurance grew about 7%, but here we are comparing the first quarter of 17 that there was no Citi with the first quarter of 18 with Citi, so I think that in the same base your guidance is between 5.5 to 8.5, but the 7% that it grew is adding Citi on this number. So in fact, maybe I don't know how much was Citi in the first quarter, but maybe if I am comparing only Itaú with Itaú, it is growing, let's say, 4%. I don't know the period, so, if I'm missing something on this.

Candido Bracher: For the first quarter we already had Citibank in our commissions and fees results, so, I mean, anyway, what I can tell you is that we think that the forecast, I mean, the guidance we supplied for this line of commission and fees we still abide by it, I mean, I think it confirms our guidance here.

Rafael Frade: Okay, thank you.

Candido Bracher: You're welcome.

Operator: The next question comes from Marcelo Telles, Credit Suisse.

Marcelo Telles: Hi, good morning Candido, good morning everyone. I have two questions. The first one is a more specific question. Could you please tell us in what segments are the that R$500 million of new NPLs in the corporate side was related to? Just to get a bit more color on that. I know you cannot mention the name of the company but knowing the sector would be helpful.

And the second question is in relation to your performance on the retail portfolio, when we look in terms of your growth for the portfolio this quarter, it was actually a slight decline. It seems that you are underperforming the sector on the retail side, and if you look at your private sector peers or if you compare your performance to the to the Central Bank the market was up, and you were slightly down. And when you look on a product by product basis it seems that you lost market share in every single product line within the individual segment.

So, I was wondering what is driving that underperformance? Is there a risk that you might be overly conservative and…or maybe you are having more competitive pressure from other players that it's making it a little bit more difficult for you to grow? Thank you.

Candido Bracher: Thank you Marcelo for your questions. The first answer is: the company is in the infrastructure sector, the corporate company.

Your second question, I'm not certain we have the same data here. I mean, we show a growth in market share in vehicles, we show a growth in market share in mortgages, so, I mean, we are not seeing here this loss in market share in every single line in the individual portfolio.

Marcelo Telles: Yes, I see that in individuals I think was down, your portfolio was down 0.1% quarter-over-quarter, according to the Central Bank data they were 1% up, 1 or 1.2% up quarter to date. If you look at Bradesco it was up 1.3%, Santander I believe it was much higher than that as well. You know, when you look in aggregate and then when you look on individual… on the product by product segment, I think most of the segments you seem to have grown below.

Candido Bracher: Marcelo, we will have to come back to you on that. I think we have different figures here. We will reconciliate and our team will come back to you.

Marcelo Telles: I appreciate that. But just as a follow-up on that, let me perhaps rephrase my question. So, regarding the NPL on the retail side, it has been performing extremely well, we are very close to historical lows. So, do you think that you may be too conservative on your credit origination policies? I mean, there is room for you to maybe loosen up a little bit and then accelerate your retail book further?

Candido Bracher: Marcelo, we have not changed our credit appetite, our risk appetite, and we are not looking at doing this. I mean, we believe a lot of the improvement comes not only from the improvement in the economy, but also from an improvement in our credit models. And at least for the short-term future, I mean, we are not considering reviewing our risk appetite.

Marcelo Telles: Okay, I appreciate your answers Candido. Thank you.

Candido Bracher: Thank you.

Operator: The next question comes from Jorg Friedman, Citibank.

Jorg Friedman: Thank you for allowing me to make questions. I have two questions. First, looking into your strong performance in the first quarter margin with the market, you would be running well above the range for the year in your guidance, first quarter represented 32% of the upper-end of the range, so just wondering if you believe that you are becoming conservative with this guidance here?

And my second question is where you see the bulk of the improvement throughout the year in expenses coming from? Your guidance implies overall noninterest expenses growing between 0.5 to 3.5%. I understand that the 6% growth observed in expenses were distorted given that if you did not have Citibank included. But just wondering where are the bulk of the improvements expected throughout the year, maybe via, I don't know, branch reduction or where are the synergies to be captured? Thank you.

Candido Bracher: Hi Jorg, thanks for your questions. Concerning the financial margin with the market, as you well know, individually this is the line more difficult to forecast because many of the results are made on the quarter and derive from provisions. Not all of them, but a part of them. So, what we had was one good quarter. We keep… which does not answer our perspectives for the three remaining quarters of the year, which should be according to guidance.

Concerning the noninterest expenses, a significant part of the gains come exactly from the synergies with Citibank, which will kick in during the year.

Jorg Friedman: Okay, thank you very much for the clarifications. If I could just follow up. The other banks are providing a better breakdown of these lines of margin with the market. Do we have any maybe color, additional color to where the asset liability management or the structural part of this line holds on, so we can have a better assessment of how much volatile this line can be? Thank you.

Candido Bracher: Jorg, I think we supply more information about these lines than at least the other banks in the local market. Actually I think we have been supplying this for a long time now, and we divide this between trading and ALM. What you can see is that ALM is more stable, trading is more volatile. It is what I can tell you.

Jorg Friedman: Okay, thank you very much.

Operator: The next question comes from Jason Mollin, Scotia Bank.

Jason Mollin: Hi hello everyone. Candido, my question is looking at the business model breakdown that you provide looking at the value creation by different segments of Itaú Unibanco's business. We saw, from our calculation, a slight improvement in the recurring earnings from credit, you show it year-on-year for the quarter, we tried to back into the fourth quarter numbers. We saw, obviously, just a very slight improvement there, but it is encouraging, and year-on-year clearly you are showing the improvement and you are showing a lower cost of equity for that business on your assumption.

Where can we go on the credit side trading with a very good quarter, and it looks like for us the insurance and services segment, trying to calculate it on the sequential basis, was very stable. Year-on-year it looks quite good. Clearly there is a seasonal factor probably in the first quarter versus the fourth. But, where can we see, I mean, this quarter we are starting to see, and less quarter we saw it as well, positive contribution from credit. You know, where can this go? We talked about this in the past with you about some portions of the lending business, it is hard to make more than your cost of equity. How do you feel about that in the upcoming years, so, given the trends particularly if you're growing faster in consumer?

Candido Bracher: To answer the question Jason, yes, we have actually been talking about this and how difficult it is to create value in the credit market. We lost… we destroyed value in 14 and 15… sorry, in 15 and 16, we were barely positive last year. This year we think we can be a bit more positive here, especially because after breakdown between corporates, individuals and SMEs, so we are growing more the portfolios in SMEs, with better delinquency rates, and the cost of capital has also reduced to 13.5, it's lower than it was last year, I think last year it was 14.5.

So, all this makes us expect a positive value creation in credit this year. But you know, as the banking sector is under severe pressure to reduce spreads, so in individual lines we are reducing spreads, the total is growing because of the mix in the credit portfolio. We think this is a trend for the year.

Jason Mollin: Maybe a follow-up on that, on the regulatory side we saw the banking association – Febraban - approve overdraft guidelines. I understand they will be effective in July 1st of this year. If you can talk about how that could impact, obviously it's not the largest size of your business, but if you can talk about the implications for profitability.

And also on the regulatory side, we see the Central Bank rule on debit cards that, I guess, they will be a maximum of 0.5% for the interchange fee and a maximum, I believe, is 0.8% for any transaction. Any implications there and if these changes are material and if we should expect more?

Candido Bracher: Okay, Jason. Yes, these changes of course in the overdraft. There is a new regulation also in the debit card, and earlier last year in the credit card. All these changes do affect our income. And we think we are dealing with them, trying to be as efficient as we can, I think at the same time that the Central Bank is making these changes they are trying to create conditions for the lowering of the spreads, the lowering of the reserve requirements. There is this approval pending now in Congress of the positive bureau and the credit policy is also improving.

So, I think this is a trend, there is no resisting to this trend, it is also in our interest to increase the number of clients and to increase demand for credit, and this also happens as the rates go down.

So, I mean, if we compile it all, we come to our guidance. We believe we can have a growth in results at the same time as we lower the cost of our lines to our clients.

Jason Mollin: Thank you very much.

Operator: Ladies and gentlemen, as a reminder, if you would like to pose a question, please press the star key followed by the one key on your touchtone phone now.

This concludes today's question-and-answer session. Mr. Candido Bracher, at this time you may proceed with your closing statements.

Candido Bracher: So, thank you all for attending the call and thank you for the very good questions. Bye-bye.

Operator: That does conclude our Itaú Unibanco Holding earnings conference for today. Thank you very much for your participation. You may now disconnect.