Itaú Unibanco
International Conference Call
Third Quarter 2016 Earnings Results
November 1st, 2016

Operator: Good morning ladies and gentlemen, welcome to Itaú Unibanco Holding conference call to discuss 2016 third 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. The replay of this conference call will be available until November 7th by phone, on +55 11 3193-1012 or 2820-4012 – access code: 5591183#

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. Eduardo Vassimon**, Executive Vice President, CFO (Chief Financial Officer) and CRO (Chief Risk Officer); and **Mr. Marcelo Kopel** IRO (Investor Relations Officer).

First, **Mr. Eduardo Vassimon** will comment on 2016 third quarter result. Afterwards, management will be available for a question and answer session.

It is now my pleasure to turn the call over to **Mr. Eduardo Vassimon**.

Eduardo Vassimon: Good morning, good afternoon. We will start our presentation at page 3 with the highlights of the period.

We had a R$ 5.6 billion recurring net income, we consider this resulted be robust, particularly taken into consideration the still challenging economic environment. We are seeing more positive perspectives for NPLs.

Talking about credit quality, we had a 3.9% NPL 90-day, this is higher than what we presented in the previous quarter, but it was affected by one specific economic group, that is already for some time 100% provisioned for, and it's a private company of the oil sector.

If we discount this specific effect, we would have had a stable NPL 90-day at 3.6%. In Brazil NPL 90-day was 4.8%, and here again, excluding this specific economic group, we would have had a 4.4%, slightly lower than the number we had in the 2nd quarter.

Moving to page 4, we have here the recurring return on equity, recurring return on assets. Return on equity close to 20%, recurring return on asset at 1.6%, same level of the previous quarter.

Moving to page 5, we have the P&L here. I'd like to highlight some specific points. We had a positive growth of financial margin with clients, 6.9%. This is positively impacted by the fact that in the previous quarter we had an impairment of around R$ 540 million, which we disclosed extensively in the previous quarter. But even discounting this, we would have had above 2% growth in this line.

Financial margin with market we had a strong R$ 1.7 billion this quarter, 15% higher than what we had in the 2nd quarter. Commissions and fees in 12 months 7.3%. And I'd like to call your attention to the results from loan losses, a reduction of 2.5% in this quarter although in 12 months we had over 20% growth, 24.5%.

Noninterest expenses showed a substantial increase at 8.4%, but here we had some extraordinary events. When we exclude those events, we would have had basically a flat number in terms of expenses when compared to the previous quarter.

Those extraordinary events are basically two elements: The first is in methodology enhancement for calculating labor claims, this amounts to R$ 687 million, and the other element is a lump sum bonus we paid to employees totaling R$ 275 million. This is part of the agreement reached with the union, so part of the agreement was an increase of 8% and this lump sum of R$ 3,500.00 per employee.

So, both this lump sum bonus and this adjustment in the labor claims are events that, although accounted as recurrent results, are extraordinary in the sense that we do not expect them to be repeated in the next quarter. So, for projecting next quarters, in our view, you should exclude those two elements.

Moving to page 7, we have the breakdown of our P&L between credit and trading on one side and insurance and services on the other side. We have the results in this 3rd quarter that are quite similar to the one we find in the 2nd quarter. And insurance and services, it has been more stable part of our P&L, accounts for approximately 6% of our bottom line.

Moving to page 8, where we have the credit portfolio, I'd like to call your attention to the growth of two lines. First one is credit card loans, we had a 2.4% growth in this quarter recovering partially the contraction that we saw in the past in this particular segment; and the other one is mortgage loans keeping basically the same behavior of previous quarter, in line with our strategy of moving to less risky segments with a strong 2.9% growth in this quarter. Altogether, given the economic environment, we had a small reduction, a nominal reduction of 0.6% in this quarter compared to the 2nd quarter.

In the lower part of page 8, we have more information here on our Latin America portfolio. On the left side, we see growth of 2.8% for individuals and 0.6% for companies, and on the right side we see the breakdown by country, where we can verify a clear concentration of our LATAM portfolio in Chile and Colombia, that together represent approximately 85% of our LATAM portfolio.

Moving to page 9, we have the loan portfolio mix. When we see here Brazil only, we continue to see a contraction in the vehicle financing portfolio given, among other things, a reduction in the market itself of car sales. Credit cards, as I mentioned, showing some recovery, and both mortgage loans and payroll loans keeping the same trend of previous quarter, in line again with our strategy of moving to less risky portfolio.

In the upper part of this page 9, we see the consolidated loan portfolio including Latin America, which represents already close to 27% of our loan portfolio. But considering that we have in the biggest part of this portfolio, that is Chile, only 33% economic interest, this figure would be 12.5%, as indicated here in yellow.

Moving to page 10 and talking about financial margins, we see good evolution in financial margin, both the regular, let's say so, financial margin and also the risk-adjusted financial margin, both presenting a good evolution.

Moving to page 11, we had a strong market result, financial margin market, at R$ 1.7 billion, basically flat in Latin America and improvements in Brazil. And when we look ahead, it's reasonable to expect for the next quarter an amount that is compatible with the average of the previous 12 months. Of course, considering that this is naturally a line that has more volatility.

Moving to page 12 and starting to talk about credit quality, we have here the 90-day NPL ratio. When we exclude this particular case, as I mentioned in the beginning of the presentation of this economic group that it's already 100% provisioned, we would have had a flat number at 3.6% for the total. In Brazil a small reduction, considering the same deduction of this particular group, from 4.5 to 4.4, and a slight increase in Latin America to 1.2 from 1.1.

In the lower part of this page 12, we have Brazil with the breakdown by the main segments, and here I think we have a quite positive information with the reduction of NPL for individuals, so for the 2nd quarter in a row we had a reduction now at 5.7%. So, we believe that this shows… that this segment is performing quite well and most probably we had seen the peak of NPL for individuals in the 1st quarter of this year.

For large companies, for corporate, when we exclude this oil company, we would have had a reduction from 1.6 to 1.4%. And as to SMEs, we still have a more challenging environment, still going up the NPL, although at a lower rhythm.

When we move to page 13 to see the short term 15 to 90-day NPL ratio, we see a good behavior of SMEs, so going down 50 basis points, from 4.3 to 3.8, what encourages us to say that we believe that this segment should also show more concrete signs of stabilization in the next few quarters. Individuals flat, at 4.2%. Latin America also flat at 2.1%. For corporates Brazil, this reduction reflects that this particular oil company moved from 15 to 90-day to over 90-day NPL, so it's more reasonable to see, in our opinion, this is a flat around 1.5 in the three last quarters.

Moving to page 14 and showing the NPL ratio excluding fully provisioned credits, we have in Brazil individuals with stable figures, a small reduction from 2.3 to 2.2%, and also a reduction in companies, again, excluding the fully provisioned credit, from 1.1 to .9%, so more compatible with recent standard.

In the lower part of this page 14, we see the NPL creation, and we have here, when we deduct this particular oil company case, a reduction both in companies in wholesale and retail. Retail, for the third consecutive quarter, we have a nominal reduction of NPL creation, so again compatible with a scenario of improvement for this particular line of business. And for wholesale we also see a reduction when we exclude this oil company.

When we see the ratio between NPL creation and loan portfolio for wholesale, only half percent here reduction from previous quarter, always considering the exclusion of the oil company, and a stable ratio for NPL creation to loan portfolio for retail at 1.9%, very stable in the several previous quarters.

Moving to page 15 and talking about renegotiated loan portfolio, we had some increase from R$ 24.1 to R$ 25.3 billion. This increase is compatible with the economic environment where we see still challenging credit conditions, but most of the increase is related to operations… transactions that are not overdue, so it is in the bottom of this figure, from R$ 5.6 billion to

R$ 6.2 billion in September, so showing what believes to be a more preemptive approach to renegotiation.

In the lower part of this page 15, we see the 90-day NPL coverage. Here excluding this oil company case would be at 188%, so a solid figure, compatible to historical standards. For 90-day NPL in range, in the previous three quarters, in the range of between 20% and 22%. Again, here excluding this oil company. When we see the nominal figures, we had injured R$ 5 billion, we have a huge increase of 1.7, and this is almost 100% related to this oil company. If we exclude this oil company, this figure, as indicated here in the page, would be… would have been R$ 5.1 billion, so a small increase.

Moving to page 16, we have provision for loan losses by segment. We had a good reduction in retail banking segment. Here, by the way, we believe that in this cycle the peak of retail in terms of provisions was in the last quarter of last year, at R$ 4.6 billion, and for the bank as a whole we are confident that in this cycle the peak was in the 1st quarter, at R$ 7.8 billion.

Moving to page 17, we have here the coverage ratio for 90-day NPLs. In the total, the yellow figure, we have 204%, that's a very robust number in our review. And we have also recalculated these fees excluding this particular oil company case, it’s the doted orange line, we would be then at 214%, the highest figure in three years. So, we consider that we have a quite comfortable level of coverage for NPLs.

Moving to page 18, we have the breakdown of our allowance for loan losses by type of risks. In the bottom, what we call overdue, is the minimal required by Brazilian Central Bank, the intermediate block, that we call aggravated, is related to transactions that are overdue where we have more provisions than the minimum required by Central Bank, and also provisions related to renegotiation. And finally, the upper part is what we call potential, where we do not have anything overdue or renegotiated, but according to our models, in our judgment, we have provisions related to expected losses. So altogether, we had a small increase from R$ 38.5 to R$ 39.1 billion of allowance for loan losses.

Moving to page 19, we have here formation for provisions and NPL ratio by segments. The upper part for retail, we continue to be around 100%, so some quarters are slightly above and some quarters, as it is the case for the 3rd, slightly below. But in a thorough perspective around 100%. For wholesale banking in Brazil, we are at 79%, including everything. If we exclude this particular oil case, that again 100% provisioned, would have been at 256%, and excluding this very same case, in the total would be at 120%.

Moving to page 20 and talking about commissions and fees and insurance results, we had a flat figure for this quarter when compared to the 2nd one, at R$ 7.8 billion, and a 7.3% growth in 12 months. This figure is negatively affected by the credit operations in guarantees provided line, that of course is pretty much related to the economic environment and our credit policy, and in this particular line we showed a nominal reduction of 0.7% in 12 months.

Moving to page 21 and talking about non-interest expenses, again here we show a huge increase of 8.4%, but excluding extraordinary events, that, again, we don't expect to be repeated, we would have had a flat figure, so nominal expenses in this 3rd quarter; very similar to the 2nd quarter. We have again excluded this because we believe that to forecast and project expenses in the next quarters this is something that we should not see in the future.

In the lower part of this page 21, on the right side, just to highlight the fact that, in line with our strategy of getting more and more digital, we are expanding our digital branches network.

Moving to page 22, here very quickly just to highlight the fact that efficiency ratio, without considering extraordinary items that I referred to, would have been 44.9%, so below the 46.7 that we observed in the previous quarter.

Moving to page 23 and talking about capital, we have highlighted here in the bottom part of this page the CT1 fully loaded according to Basil rules, so anticipating the schedule, we are today at 14.1%, and discounting both the Citibank and the Itaú BMG transactions that were announced, we would have been at 13.6%. Both those transactions are still dependent on regulatory approvals, so 13.6 after those transactions still very comfortable level and putting us in a very comfortable position for taking advantage of a potential new credit cycle.

On page 24, talking about our forecast, we have reaffirmed all the lines of this forecast, so we believe that all lines will be within the ranges indicated in this page. For credit portfolio, we believe that we will be close to the bottom of this range. For financial margins with clients, we believe that the final figure will be between the midpoint and the lower point of the range. Provisions for loan losses net of recovery will be, in our view, very close to the bottom point of this range. Commissions and fees should also be close to the bottom, and non-interest expenses, despite the extraordinary items, would be still within the range, although close to the top of this range.

On page 25 we give some information on Citibank's and Itaú BMG's transactions that were announced, both aligned with our strategy of reinforcing our activity in retail, in the case of Citi, and in the payroll financing, in the case of BMG, both again subject to some closing conditions and approvals from regulators, particularly Brazilian Central Bank and the Brazilian antitrust authority, Cade.

Finally, on page 26 we invite you all to participate in our annual meeting, Apimec meeting, that will take place on November 17th in São Paulo.

To conclude, again, we believe that this was a robust quarter with positive perspectives for NPLs, expenses under control and a resilient margin.

So, thank you, and now Marcelo Kopel and myself will be available for possible questions that you may have. Thank you.

Q&A 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, please press star two.

Our first question comes from Domingos Falavina, with JP Morgan.

Domingos Falavina: Hi, good morning Vassimon and Kopel and everyone on the team. First, congratulations on the strong set of figures. I have two questions. The first one regards provisions. We noticed a significant improvement in new NPL formation, I think you mentioned in fact three consecutive quarters of decrease, and if we repeat the last quarter or 2Q, we would mostly go to below the guidance. So, my question is, do you have room or do you have baked in in the forecast any increase in additional provisions, or the 23 to 26 billion does not incorporate any kind of rebuilding of additional provisions? And then I'll go to the second question.

Eduardo Vassimon: Thank you, Domingos. As to the provisions, we are… given what we have seen in the previous months, we are, I would say, more confident in relation to provisions related to individuals, while for companies I think we are still in the process of stabilizing the level, but it's less clear then for individuals. So, we still might see some volatility in the provisions, particularly for companies. And as I mentioned during the call, seen from today, our best expectation is to be very, very close to the bottom of the guidelines, the forecast as you mentioned. We do not discard to be slightly below this, it could be slightly above, slightly below it, but again, we are more confident for individuals.

Domingos Falavina: Okay, perfect. The second question is more on the NII and on Selic. Itaú hedges its loan book and some peers don't, and it seems like a very anticipated reference rate decrease in Brazil, and it feels a little contra-logical to me that one bank could benefit when the other wouldn't? So, in this sense, my question is, how can you benefit from an anticipated Selic decrease on the NII? Can't you get to that through trading gains or potentially some other line that we're not seeing?

Eduardo Vassimon: Well, we naturally we… in the management of our structural book, we do consider scenarios, economic scenarios, and we tend to anticipate movements when we consider appropriate in the interest rates, and we have so to some extent recently so that we can smooth the effect of a reduction of interest rates. And also, a reduction in interest rates of course normally occurs, and we believe this is the case now, in a scenario where we see an improvement in the economic environment as a whole. So, in a scenario where we would see more demand for credit and reduction in NPLs. So, there is one positive sign, one positive aspect that is this improvement in the whole environment in the economic conditions.

Domingos Falavina: Perfect, thank you very much. Congratulations again.

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

Carlos Macedo: Thanks. Good morning Vassimon, Kopel, guys, thanks for taking questions. Main question here goes back to capital. I mean, I've been asking this question I think pretty myself for three or four straight conference calls. You are accumulating 30 to 40 basis points a quarter and you are fully loaded, fully mitigated to one ratio, you know, 14.6 now if you include the tax credit that's, you know, in a year and a half if you keep the same trend in asset growth you are going to be well over 16. And that's not efficient, right? What's the plan here? I mean, you're talking about growth coming back and, you know, at least seeing some growth, but at the same time we are talking about maybe mid-single digits loan growth in 2017, maybe a little bit stronger in 2018. That's not really going to make a dent. You haven't really bought back any shares this year, you don't talk about increasing the payout, the acquisitions that you made were strategically important for your presence in Brazil don't really… haven't really made a dent into the capital level that you have. So, is it going to be acquisitions? Is it going to be more buybacks, is it going to be a higher payout? How are you going to turn this around? Because, you know, 16.5, I don't think many banks in the world can say that they have better. I don't think you feel comfortable with that number. Roberto talking at the beginning of the year that they, you know, you guys want to run the bank at 12 to 12.5. Can you give us some light into... as to what the current thinking is, and more importantly, the timetable for implementing that thinking?

Eduardo Vassimon: Good morning Carlos. Yes, as Roberto mentioned previously, we believe that 12 to 12.5 would be a reasonable level of capital in normal and more stable conditions. I think we are getting there, still in a not so stable economic environment, and we don't see us reaching 16.5% with no action.

We expect some growth starting next year and some pickup in credit growth in 2018. We have made those two transactions, small, but together they consumed 0.5%, and we will be following possible opportunities for acquisitions, particularly outside Brazil. Of course, we are in the short-term more focused on consolidating the CorpBanca deal, but if there is good opportunities in the right timing, we would consider expanding our presence in Latin America.

If all this is not enough, we would definitely consider being more aggressive in buyback shares, and we will do this, I'd say, during the next year we will probably have a more clear picture in terms of demand for credit, in terms of the whole economic environment, and we are not going to be sitting and just seeing the capital accumulating to 16 or 17% level.

Carlos Macedo: Okay, thanks Vassimon. I mean, I think the most you bought back in any given quarter has been R$ 1.2 billion and, you know, again you are accumulating R$ 4 billion as capital every quarter, it doesn't… again, buyback is only a part of the answer, right. Is there no chance that you raise the dividend payout even if temporarily?

Marcelo Kopel: Carlos, it's Kopel. I think you should… the answer would be a combination of things, because just one thing will not, you know, address the accumulation at all. So, it would be a combination of things and, if special dividend or temporary increase and payout is needed to address that, it could be used. But don't see one option excluding the other one, they should be probably used or they will be happening at the same time.

Carlos Macedo: Okay. Just as a follow-up to that, because it's just capital sitting on the other side of the balance sheet, the excess reserves are now at 10.4 billion, you know, you're talking about NPLs improving, the cycle turning, growth coming back. Is there a plan to make use of that or, again, is it just going to sit there for a rainy day in case the cycle doesn't turn out the way you expect it to?

Eduardo Vassimon: Hi Carlos, it's Vassimon. This excess provision should not be seen as a reserve for rainy days. I mean, when we built it, most of it, we had a very low level of visibility and a crisis that was approaching in our judgment at that time. But I think we have to see this more as a regular process of having provisions according to our expectations for losses, according to our models.

So, in the 3rd quarter we saw some… sorry, in the 2nd quarter we saw some reduction in this complementary provisions. In this quarter, we have increased a little bit. So, we are going to see this fluctuating according to our judgment and our models. And what we can say from now is that, for next year we expect to have a lower level of provisions, expenses.

But this…

Carlos Macedo: And that would…

Eduardo Vassimon: Sorry, just to complete, so these complementary provisions, in our view, should be seen as part of the management of our expected loss model.

Carlos Macedo: So, it would be reasonable to say, a lower level of provisions that you could eventually use these excess provisions if, you know, or in other words, that level of excess provisions could come down if you started seeing the risk for what you provisioned them for decrease?

Eduardo Vassimon: Yes, the level provisions should reflect our assessment of the risk. If the environment improves, we will have a lower level of provisions.

Carlos Macedo: Okay, perfect. Thank you Vassimon, thank you Kopel.

Operator: Our next question comes from Tito Labarta, with Deutsche Bank.

Tito Labarta: Hi good morning, thanks for the call and for taking my questions. A couple of questions also. Following up just a little bit more on provisions, I just wanted to get a sense, you know, looking through the cycle, has things improve over time, you know, if we look from 2013 to 2015 your provision is around 3 to 3.5% of loans, this year, you know, is above 4%. Just like overtime, once you get through the asset quality cycle, what is kind of a sustainable cost and risk in a normal environment? I'm not saying you're going to get there next year or in 2018, just given your loan book where it is today, just thinking a normal environment you would be provisioning around that 3 to 3.5% or, you know, I don't know how long it will take to get there, I just want to get a sense, you know, once you get through that asset quality cycle, what would you expect? Things full up in terms of cost and risk?

And my second question, just following up in terms of loan growth. You know, which segments do you think you could grow in as the economy improves? You mentioned growing in mortgages, we saw payroll loan have been kind of flat over the last year, we saw a pickup in credit card this quarter. You know, as the economy improves, what segments do you think there could be some demand will be most influenced? Thank you.

Marcelo Kopel: Hi Tito, it's Kopel speaking. I think fortunately or unfortunately, Brazil is hard for you to have comparable periods here in Brazil, but you know, you mentioned something 3.5% in your number, which, you know, looking at the history for the net provisions, that was a number that we achieved on average through several quarters during 2015, and that could be a number. If you want to pencil a number, that could be a number that you can pencil, okay?

But again, you know, we are still going through a cycle, you know, we have many things ahead of us, like elections in 2018, structural reforms that need to take place. So, in lack of a better number, you know, you could use that… pencil that number for the time being. But, you know, is more like a temporary thing until we can get something more longer-term view, which we don't have it now.

In terms of growth, we are getting out of a cycle, but not throughout of the cycle. GDP growth should be in this positive territory next year, somewhere between 1.5 and 2%. So, that could provide an opportunity for the market to grow at a modest single digit number, and throughout 18, with things progressing in the political and economic agenda, you can get some acceleration to that.

But as of now, seeing from where we are, you know, trying to compare that with a path growth where penetration of credit through GDP was at a much lower level, we don't envision that being the case.

Eduardo Vassimon: Tito, this is Vassimon, just to complement, what we are seeing is that inventories are going down rather quickly, so demand is higher than production today, so industry should show some recovery.

For individuals' demand for credit, it's probably taking a little bit more time because we are still going to see increase in unemployment, although at a lower pace. We expect unemployment to peak the 1st half of next year, but the level that we should reach by the end of this year will be already close to the peak.

So, we are, I think, in the process of approaching the peak, and then in the second half of next year we should have… starting the reduction of unemployment level. So, it will be, in our view, a slow and gradual process.

Tito Labarta: Okay, thanks. That's helpful.

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

Jorge Kuri: Hi good morning, Jorge Kuri from Morgan Stanley. Two questions, if I may. The first one is on the macro environment. Can you give us a sense of what you guys are sensing, being close to the economy, on how things have progressed over the last three months? We've seen some macro indicators coming weaker than expected and consensus numbers for GDP growth next year have come down around 10 basis points now, market expects 1.2% GDP growth versus 1.3 before.

What is it that you're seeing? Are you seeing you know signs of improvement duration? You are very close to the economy, so wondering what is it that you're seeing, and especially in the context of your 2% GDP growth for next year, which is obviously much higher than what the consensus is today.

Eduardo Vassimon: Good morning Jorge. We expect the growth to be between 1.5 and 2% next year. We are seeing mixed signals here, what I believe is rather normal when you are leaving economic cycle. The confidence has clearly improved, both for consumers, industry and entrepreneurs, commerce, industry, but the signs are not yet robust.

As I mentioned previously, we believe that this will be a rather slow process of recovery, but we are confident that we are starting… we are going to see more positive figures in the next few months.

Again, it will be slow, but the signs that we have, the indicators that we follow, including some indicators that we build for credit purposes internally, are showing clearly that things stopped getting worse and are starting to get slowly better. And the interaction we have with the main companies also show that the mood has improved. There is still some reluctance in investing because there is… idle capacity is high, and of course the whole environment is still dependent on the consolidation of the fiscal measures.

As you should know, Congress approved a very important measure… sorry, the lower house approved a very important measure, that is the ceiling for expenses. This still has to go through Senate, then we have social security reform, you have other relevant reforms, so the mood is positive. I think the political scenario is more stable, we see, I think, a good environment for a more liberal approach to economic issues, but it will take time. It will be a slow process, but we believe in a consistency in the right direction.

Jorge Kuri: Thanks. And I have a second question, if I may. Just to clarify, I saw in your institutional presentation that your GDP growth estimate is 2. Is that sort of like… that's your economy's number, but the bank is working with a different 1.5 to 2. So, just to clarify what are you expecting?

Eduardo Vassimon: That's a good question, thank you Jorge. Yes, our economic area is forecasting 2%. We, in our budget, in our models, we are slightly more conservative, we're working with 1.5%.

Jorge Kuri: Got it, perfect. So, my second question, if I may, is on sensitivity to lower rates. I also saw in your institution presentation that your economy is expecting rates to go down to 10% by the end of next year, which is a bit more aggressive then consensus, but also in line with what we expect, a 10%, so that's a pretty pointy reduction in rates. And I know that these things do not work in isolation and you made it very clear, variables moved, variables moved all around, and, you know, lower rates, you know, means other parts of the business will change. But most banks globally provide very good visibility on an all else equal, obviously "equal" being the key word here and assumption. What is the impact that every 100-basis points reduction in Selic rate has in your bottom line? You know, we get those numbers from banks in Mexico, banks in Peru, banks in Chile, banks in Colombia, and I'm sure it's not a very difficult number to put together. So wondering if given that 2017 is going to be a very characteristic year because of the sharp reduction in rates, in an environment of, you know, relatively modest growth, I think it's important for the market to understand again on an all else equal what does this mean for your business?

Marcelo Kopel: Hi Jorge, Marcelo here. Yes, I understand the context of the market providing that, but the concept of all else equal for Brazil is really something harder to, you know, to say, so we will not disclose a number for that. But I'll make a few considerations adding to what you already preempted in your question, which is things don't work in isolation and most of this spread is not driven by the funding cost, but is driven by the credit perception.

So therefore, we do envision a reduction in NIM, and it's a fact, we envision that this will happen gradually for a couple of reasons. One, the portfolio duration. Second, because perceived credit spreads will go down to the extent… actual credit is perceived with less risk. Third, competition is being rational, okay, so that helps as well.

And the point here is really, you know, in the part that we are more, let's say, sensitive to that, which is, for example, in the funding cost, this will have an impact since you are making efficiency out of your [0:50:53] rate, but at the same time we tend to increase the duration of our placements that protect those liabilities, in the sense that this should help smooth the impact.

If you look at our ALM and the value at risk at this particular quarter, you would see an increase in our value at risk, which talks to having longer duration positions to smoothen the impact of that.

Needless to say that it's impossible in a situation like that to keep postponing forever the impact of a reduction in interest rate. The only thing we have here is how we transition in a scenario where you're having the pressure of interest rates going down and we are still not ready to make growth make up for all this reduction. So, you should see the combination of reduction in rates, bringing NIM down gradually, a pickup on the credit cost, which should help us shelter part of that and, to some extent, a modest growth in credit. And in 18, credit should accelerate further and the bulk of the reduction should be already baked in on the numbers. But that's not a perfect scenario. Far from being perfect on an economy that is still in a slow mode.

Jorge Kuri: All right. So, in absence of you providing, you know, what I think is basic disclosure for most banks normally, so what is your best guess, Marcelo, single-digit loan growth that probably means average on average in, I guess, low single-digit plus NIM compression? What does that mean for revenues? Can you see financial revenues grow next year or you think that the working scenario should be flat to them?

Marcelo Kopel: I think Jorge if we say modest growth on the portfolio, NII should be at a lower pace than the portfolio, okay? And that just talks to what we just spoke about NIM trending down in a gradual way. But that would be the indication we will provide in the absence of having a formal guidance to give to you.

Jorge Kuri: All right, thanks.

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

Mario Pierry: Yes, good morning everybody, congratulations on the solid results. Just one question related to the competitive environment that you are seeing. We have seen a lot of consolidation in Brazil recently, in Bradesco and HSBC, you buying Citibank and also doing a transaction with BMG to buy the entire stake there, at the same time we are seeing public sector banks with some capital problems. So, you know, I just wanted to get from you, what is your desire then to or your willingness to regain some of your market share that you were willing to lose the last few years when you didn't feel comfortable with the economic environment, especially given your high capital ratios? So, can we see Itaú over the next few years regaining back some of the market share that you lost?

And also, you know, what does this mean for credit spreads, if the competitive environment is improving? Thank you.

Eduardo Vassimon: Good morning Mario. The environment we see is a very competitive one, but rationale competitiveness. I mean, we see both private and public banks showing a good level of discipline in pricing, in capital deployment. So, I think we have a good environment for competition.

In the past, that was not necessarily the case, and although of course market share is important, we always try to price adequately the risk and we are not going to get into an irrational competition. So, this caused us in the past to lose in some specific segments, a little bit of market share. I think in this new environment of rational competition, given our capital position that's quite strong, I think we are well placed to possibly regain a little bit of market share.

Mario Pierry: And in terms of… in regards to the credit spreads given, okay, it's a rational competitive environment, seems like no one wants to be, you know, wants to be the first lender here, especially as no one seems completely comfortable with the economic environment yet. Does that mean then the credit spreads remain elevated for a few more months?

Eduardo Vassimon: Yes, I would agree with that, I believe that credit spreads of course will follow the risk perception, but I have the impression that they will go down in a lower pace than the risk itself, given this more rational environment.

So, I don't see spreads getting compressed in the short term, and so, I think it's a favorable environment where we will start to see less risky and still a good level of spreads. But of course, over time they will converge and reflect a lower level of risk.

Mario Pierry: Perfect, thank you.

Operator: The next question comes from Nicolas Riva, with Citi.

Nicolas Riva: Thanks a lot Marcelo for taking my questions. My first question is on the 4th quarter. Typically, the 4th quarter is the strongest quarter of the year, and if I look at the 3rd quarter you had some one-time expenses, about R$ 900 million in provisions for legal claims and bonus payments for the legal agreement, the guidance for loan provisions for the full year implies loan loss provisions about flat quarter on quarter in the 4th quarter. So, my question is, in the 4th quarter, if it would be realistic to assume net income of about R$ 6 billion, R$ 6 billion net income for the 4th quarter?

And my second question is on loan growth. So, you already said that for next year we should expect to see loan growth in mid-single digits more or less for next year. Now if I look at your corporate and SME loan books, we saw a decline on a quarter on quarter basis, we saw declines of 3% quarter on quarter for corporates and 2% quarter on quarter for SMEs. So, my question is, when are you seeing really the inflection and growth to resume really in the corporate and SME groups? Thanks.

Marcelo Kopel: Hi Nicolas. Regarding the credit growth, it should be something that should materialize strongly, or stronger, actually, in the second half of next year, okay?

We are still seeing, you know, companies adjusting, especially on the corporate segment, we are still seeing companies adjusting. Vassimon mentioned before that there is a lot of idle capacity in the economy, so that typically postpones the decision for companies to be coming back to the market. And when they come back it's going to be mostly driven by working capital than to longer-term financing, given the installed capacity that they have. So, this is one thing.

And needless to say that growth will be an even throughout the different segments, so you will see segments or different pockets of the economy growing at different paces.

Regarding our 4th quarter estimates, we can't really comment on numbers for the 4th quarter, but, you know, Vassimon mentioned a couple of… gave some color in terms of the intervals, so you may well get to the number you provide or something around that. But it's more up on you to put numbers.

But one thing that we need to remember is, the 4th quarter typically brings additional volumes on certain portfolios that, when you look at on a prospective basis, regardless if they are delinquent or not, you tend to build provisions for them, just because of unexpected losses. So, the trend on some of these segments is the one we've been seeing, but you may get some fluctuation, as Vassimon mentioned, in terms of a quarter on a quarter. But we are confident with the intervals we provided.

Nicolas Riva: Thanks Marcelo.

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

Marcelo Telles: Hello Vassimon, Kopel, everyone, thanks for your time. Congratulations on the results. I have two questions. The firsto one, you mentioned earlier that you would expect some level of decrease in provision expenses next year. And my question to you is, what is the level of GDP growth expected for next year that you think, you know, would prevent you from reducing provisions? I know you are expecting 2%, but what sort of level of GDP growth you think could lead to your provisions not to improve next year?

And I ask that because we all know that the level of corporate leverage is very high, almost three times net debt to Ebitda, you know, pretty much all-time-high levels and, you know, there is a big lack operational leverage component there. So I was wondering if you have done any work in terms of sensitivity to GDP and cost of risk in your case.

And my second question is regarding operating expenses. You've been doing a good job on costs, but, you know, when you look in terms of what you're going to achieve this year I think your guidance is 2 to 5% growth, but you have a big decline in your loan portfolio, 10% decline more or less. How should we think about your operating expenses evolution next year and on, let's say, if your volume stop declining, so you have maybe some modest growth from next year. Do you think we could see pickup in Opex or you think you can still deliver operating expenses growth below inflation? Thank you.

Eduardo Vassimon: Good morning Marcelo. As to the relation between provisions and GDP, I mean, I don't have the answer here, we have to make some simulations. But we expect in our base case that 1.5% to have a decrease in provisions. If it turns out to be a substantially different from that, then we could… we should revise this expectation. But it should be something relevant to change this assumption.

As to operating expenses, yes, we believe that we will be able to deliver below inflation growth next year.

Marcelo Telles: Okay, thank you.

Operator: The next question comes from Carlos Gomez, with HSBC.

Carlos Gomez: Hi good morning and, again, congratulations. I have another question on the capital, but I want to focus on the denominator of the capital ratio. If you look at page 41 of your MD&A and you look at the composition of… the risk of the asset, you see a very, very sharp decline in the category of 85%, it goes from 150 to 94 billion. So, I wanted to know if there was anything specific that brought such a big decline.

And on a wider basis, if our numbers are correct, your loan portfolio, given that you purchased CorpBanca, of course CorpBanca has grown 4% and yet your risk with the assets have declined 8% year on year. Could you tell us how much of that is mix and how much is change in the [1:04:24]? Thank you.

Marcelo Kopel: Carlos, for your first question, there was a migration from what we call SDR 85, which is the percentage that is [1:04:39] from 85% to 100%, and that's a change in classification given a clarification provided by the Central Bank. So, this is basically a migration from one line to the other one, okay?

Regarding CorpBanca, as you mentioned, I need to confirm, but that's got to have something regarding FX. But we will take that off-line with you.

Carlos Gomez: Okay, thank you very much.

Operator: Ladies and gentlemen, as a reminder, if you would like to pose a question, please press the star one.

This concludes today's question and answer session. Mr. Eduardo Vassimon, at this time you may proceed with your closing statements Sir.

Eduardo Vassimon: Thank you all for participating in our call. Just to reaffirm that we believe this 3rd quarter to be a solid one in terms of results, with good perspective in terms of NPLs and expenses under control and resilient margins.

So, thank you all.

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