



**Itaú Unibanco**  
**International Conference Call**  
**Fourth Quarter 2015 Earnings Result**  
**February 3<sup>rd</sup>, 2016**

**Operator:** Good morning ladies and gentlemen, welcome to Itaú Unibanco Holding conference call to discuss 2015 fourth 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.itaú.com.br/investor-relations](http://www.itaú.com.br/investor-relations). A slide presentation is also available on this site. The replay of this conference call will be available until February 9<sup>th</sup> by phone, on +55 11 3193-1012 or 2820-4012 – access code 1628627#

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. Roberto Egydio Setubal**, Executive President and CEO (Chief Executive Officer);
- **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. Roberto Setubal** will comment on 2015 fourth 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. Roberto Setubal**.

**Mr. Roberto Setubal:** good morning and good afternoon for all of you. Thank you for being with us and giving us the opportunity to clarify some doubts and things about our results, and especially about the guidance we gave yesterday.

I will start talking about the quarter and then we would... I'll go quite fast on that so that we have more time to discuss the coming years.

Our result in the quarter was R\$ 5.8 billion, down from last quarter 5% and 15% above last year, 2014 last quarter. The ROE was down given, though still a very high level of 22% in the quarter, closing the year in 24, almost 24% of ROE for the year.

Credit quality was down as we have seen some deterioration on NPLs over 90 days and some improvement in the short term NPLs, as we will discuss down the road.

Second page you can see the trends of the last years of ROEs, we have been very strong in terms of ROE and coming down in the last two quarters. And the main reason for coming down in the last quarter, as we can see on page 4, was the financial margin with the markets that we had a very high level margin in the 3Q, R\$ 2.2 billion, which is much above the



traditional levels that we have, down to 1.2 billion, so a reduction of R\$ 1 billion in revenue in the quarter.

I would say that you should have expected this reduction given the fact that we have already announced that this number can fluctuate among quarters, but for one year we expect it to be close to R\$ 5 billion. So the level that we had in this 4<sup>th</sup> quarter was pretty much in line with what would be an average, a kind of an average, that we could expect coming from this kind of revenue.

In the quarter we also have fees and commission going up, and this is a seasonality given the card expansion in the Christmas time and some other revenues that increase in the last quarter of the year, given the more intense activity. But everything else, in terms of our revenue, was pretty much in line with the expectation that we have and coming from the 3<sup>rd</sup> quarter.

Provisions and recoveries net were pretty much in line and, if you look provisions and recoveries in the quarter, was in line, but we had one specific case of above R\$300 million that was written off that we recovered, so we had a renegotiation on that credit. But we have full provision, we have made full provision on this same recovery. So net, it was very close to what we had last quarter.

Claims were pretty much in line. Expenses also a small increase, especially given the fact that we had salary increase periods in September, which affected much more the 4<sup>th</sup> quarter.

So basically this were the main differences. So results, not putting more seasonality effects, were pretty much in line with the 3<sup>rd</sup> quarter.

We have opened in the 5<sup>th</sup> page a new chart that opens our consolidated PNL in Brazil, having Brazil PNL and Latin America PNL. This is something that will be important in the future given the fact that we will be consolidating along the year the CorpBanca in Chile. CorpBanca will be a number that will affect the Latin America column, but you might be able to keep track of what is going on in Brazil, given that we are opening these numbers, which I think will be more and more important in the future.

Our two main groups of activity, credit and trading and services and insurance, we open the results here in 2015 results. Results in services went up 22%, this was good news. This is a very strong source of revenue for the Bank, this keeps our business very stable and, in 2015, which I believe was one of the most difficult years in our credit business, we still have a stable recurring net income, and this gave us a below what would be cost of capital for us today, but the return is still 15%. Although, like I mentioned, below the cost of capital, but still, giving this very bad year in terms of delinquency, still good result.

Going ahead and this scenario that we're living in Brazil with GDP reduction, our credit portfolio basically stayed stable during the year. Few lines have increased and many others have declined. Automobiles, for instance, have declined, payroll loans have increased, mortgages have increased, but overall a small reduction and some stability overall.

We have put here down the table, down this chart, the CorpBanca number, which I think it's interesting to you to give an idea of what CorpBanca, how CorpBanca will impact our numbers. But it's very clear that going up to something around R\$ 660 billion of loan, Latin America will represent very close to, a little bit above 20% of that exposure in our balance sheet.



The change here, the evolution of CorpBanca, 30%, is pretty much due to exchange rate fluctuation, which was very close to what we had overall in Latin America, including other countries of Latin America, of 34%, just above your lines here.

Moving ahead, financial margins were pretty much stable. We have some stabilization in margins with a small trend of spreads, but the fact that we are more risk-averse today, our mix is coming to a low... ending with a... resulting in a margin that is quite stable, even when we consider the level of reserves that we are putting on, against the margin still, we have come up from last quarter from 7.4 to 7.5. So it's pretty much stable, we are being able to keep margins in line with provisions, so in this kind of environment we believe that this is a good job.

Financial market... margins with markets have come down, as you can see in page 9, I have already commented on that, and the number of this last quarter was pretty much in line with what we can expect for the coming quarters. We can go up and down around this number, but the number was quite okay in this 4<sup>th</sup> quarter. When we look into the year, we see that the number for the year was strong, we have many quarters above that level and specifically last quarter was a record, again, in margins with market, which is something that has made our results stronger in that quarter.

Credit quality, in page 10, is in good moment for the short term NPLs of 15 to 90 days came down in this last quarter, for the NPL 15-90 days for consumers in general have come down. We have some seasonality here, we have additional salary at the end of the year in Brazil, so this gives some more revenue for people so they can pay those more in line with what is expected, and also the fact that credit card number in the last quarter is always a little bit higher, given the expenses and higher use of credit card in the last quarter. So all this combined made the numbers come down. If we do not consider the seasonality effects, it would be pretty much stable with the previous quarters. Next quarter we expect it to grow up, like we have seen already in 2015, 2014 and 2013. All the years we have this first quarter impact and over the year it comes down a little bit.

Small companies fluctuating pretty much in line with previous quarters and corporations have come down. This is good news looking ahead for corporations, as we can see in NPLs over 90 days. Corporations are coming down in NPLs, which is good news, it has been affected by the assets that we have sold and we will talk more about that in this presentation.

Consumers and small companies with a trend of deterioration, which we believe will be going up along the year. We expect the economy the GDP to reduce again in 2016, so we expect that, in line with that, we have some deterioration in NPLs. So the scenario that we see ahead will be definitely what will mainly impact NPLs in the year.

Our coverage ratio is strong, we have not touched the coverage ratio in this last quarter. We have R\$ 11 billion in coverage and, when we see the kind of NPL that we have, considering only those credits that are not fully provisioned, it has been pretty much stable, which is also good indication that we have provisions in good shape, in line with deterioration.

In the next page we have more information about renegotiated loan operations. This is something new, we have never shown in the way we are opening here, we have opened the days overdue at the moment of the renegotiation, so it's more clear what have been done in the Bank. Book is growing because delinquency has been growing, so this comes pretty much in line with delinquency, which is a consequence of the GDP reduction.



Below here the good news is that NPLs of that book are pretty much low at this moment compared to other moments in the past. So the book is performing reasonably well.

Here is a more detailed information about the assets that we have sold. We have three main portions that we have sold and I will start on the right side, we have sold middle markets segment loans which were written off, so was on zero on our balance sheet. This was a sale of R\$ 2 billion that we made R\$ 44 million of revenue, but it did not impact NPLs because was already written off.

In Chile, we have this every year, we have a sale of students' loan portfolio, every year we do this in Chile and also is not impacting the NPL ratios because it was pretty much... we did not have any major past due loans in this book in Chile, we were sold pretty much for the value that we have, making profits in Chile on that sale because was a good portfolio.

Here in Brazil we also transferred loans with very low probability of recovery in the short term. We made this sale to keep our books clean. We had already a lot of provisions on that, 75% of the assets was already with provisions, we had, at that moment that we sold that, more provisions in our books than those that would be required by the Central Bank rules, so we were selling credits that were overdue, still on our assets, assets of companies, loans to companies that have all the loans in the markets. So we had a negative impact given provisions that... some of those were already fully provisioned, 100% provisioned, so we made some revenue on that, but we made additional provision on this revenue of 17 million in order to keep this with no effect or very low effect in terms of profits. This has the impact that we show here in the NPLs.

Provisions. In the next page we can see how much provisions we have been making every quarter in the retail banking and the wholesale banking. Retail banking, as delinquency in consumers has been increasing, has been going up as well. The delinquency in the wholesale banking, as I mentioned to you, has been coming down so the provisions have also been coming down. In this last quarter, as I mentioned before, we had one recover of write-off of 300 million that impacted because we recovered, but we made 100% provision against this renegotiation and this 300 million is here. So, if we did not have this recovery, we would have a number pretty much close to 1.2 billion compared to 1.4 before, the quarter before, 1.7 and 2 billion in previous other quarters. So this is pretty much in line with what we have done before.

We mentioned to you that we were making provisions, anticipating provisions in previous quarters, we made this communication that we were anticipating losses that we believed that we would have, and provisions now, given the fact that we are not seeing any major additional big number coming up in coming quarters, we expect that we won't have that much provisions on the wholesale assets.

On page 15 we open the insurance and services PNL of each one of the lines that we have. I think this is an important source of revenue for the Bank, it's pretty much stable, is a very strong business for us, it gives us a lot of stability in our earnings, we have good returns on this business, it's very diversified, it's something that complements quite well our loan business because it has no volatility in terms of, in bad moments of the economy it does not suffer, as we can see this year, we still had some growth here although lower growth in other years, but still growth and good revenues, sound results. So this balances quite well with the loan business. It represents more than 50% of, almost 50% of our results in the year.



In the next page we open in details the fee and commission revenues that we have. Overall we have grown the business in the year 10%, what is pretty much in line with inflation, although we had this GDP reduction in the year.

In terms of expenses, on screen 17, we have grown expenses, non-interest expenses below inflation - inflation was around 10% in Brazil, 10.5% -, so we were 4% below inflation in terms of expenses expansion, which is quite good. We believe that we will keep a very strong focus on reducing expenses going forward. So, for the next year and the years ahead we expect non-interest expenses to grow below inflation.

On our capital position, as we can see in the page 18, it's quite strong, quite comfortable. We have at this moment 18.8 of core equity Tier I, fully loaded Basel rules. So it's very comfortable and we have ahead of us, just to make the point, the fact that we will reduce our CET I by almost 1% at the moment that we made the consolidation of CorpBanca, especially because we will make a capital increase in CorpBanca of US\$ 600 million more or less, probably in this 1<sup>st</sup> semester this year. So this will reduce a little bit this position during the, at that moment.

In 2017, we have our guidance and we believe that we have made a good job, especially because we started the year..., at the end of 2014 everybody was expecting GDP to be positive in 2015, so a more stable exchange rate and so on and so forth. So at the beginning of the year, with new perspectives for the year, we have changed the guidance, but even though the result at the end of the year was much worse, much more difficult GDP, reduction was much worse than the one expected at the beginning of the year, we basically followed the guidance pretty much well, only the provisions for loan losses net of recoveries were a little bit above the guidance that we gave. But we believe that this, given the scenario, was a very good number.

For 2016 we see again a scenario more negative. We believe the GDP will be negative this year of 2016, as all the economists are putting out their numbers, the IMF negative number for 3.5 negative for Brazil, other houses in Brazil are putting numbers as negative as 4%. So, those numbers here that we see in our guidance are based in something between 2.5, in the best case, and the worst case, which we don't believe that would be the case, but we gave some space for that of 5% negative of GDP. So, especially provision number, which is high and I believe this has surprised some of you, are based in this very negative scenario of 2.5 negative of GDP to 5 also negative.

So we are trying to be very realistic about the economic scenario in Brazil, we believe that given in this scenario delinquency will be increasing, consumers, especially given the higher level of unemployment, delinquency in consumers will be higher and also, especially in small and medium market, we believe that as the economy keeps on this same pace of deterioration, reduction of GDP, we believe that we will need more provisions for the year.

On the same lines, we believe that we won't be able to reprice margins and grow margins with clients the same pace that we did this year, so we are more conservative here in terms of margins compared to what we had in 2015, and the same applies to commissions and fees. I think we are trying to put numbers that we believe are more realistic with this kind of scenario. Obviously if we have a more, a better scenario than this one, numbers might be better. But we're trying to be more realistic and base our numbers in the scenario that we are considering for the year.



In terms of expenses we are working hard, like I mentioned before, to have expenses below inflation. So this is what we are seeing for the year.

We have opened here what would be the consolidated balance sheet guidance and the Brazil guidance. This is important because we don't know exactly what could happen with the exchange rate, last year exchange rate quarter to quarter fluctuated a lot and this made it much more complex to understand where we were. But now we will be opening this very clearly so that you can have a more clear observation of how the Brazilian business is doing, and we gave the guidance for the Brazilian business as well.

Okay, you should consider also as effective tax rate 33%, this is what we have in our projections for the year of 2016.

Thank you. Now we open for questions.

### 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 press star two.

Our first question comes from Mr. Tito Labarta, with Deutsche Bank.

**Tito Labarta:** Hi, good morning. Thanks for the call. A couple of questions. I guess I have a quick question in terms of asset quality and your provisioning guidance. You seemed to be a bit more conservative than some of your peers. So I just want to get maybe some more color on that, is it just being more conservative than your peers or are you seeing some more asset quality issues? I mean, obviously we expect some deterioration this year, but I guess how much deterioration do you think you could see, I know it's early in the year, maybe hard to tell, but would it be similar to what we saw in 2015, around 60 - 70 basis points deterioration for the year or do you think it can be worse than that? If you can maybe give some more color on that.

And then the second question, I guess in terms of profitability, clearly you had very strong ROE last year, probably not sustainable this year, but do you think it's, in terms of longer-term, you know, what would be a sustainable level of ROE? Is it something to kind of drops this year, maybe to 18% - 19% and then you can recover back to the 20% level or so? If you can maybe just give some thoughts in terms of, you know, what you think for bottom line profitability given the guidance that you've given. Thank you.

**Roberto Setubal:** Okay, very good points. First question about the expectation for provisions, we based basically our provisions with models that are showing correlation clear looking back with GDP and, especially in the retail business, we have a good correlation, we have models that show good correlation of what can you expect in terms of delinquency and what kind of provisions we will need as a result of that with a GDP thing. So basically our numbers are working with this scenario. We have no specific issue that we are, specifically condition other than the scenario macro in Brazil. Like I mentioned, we are in those numbers



being very open in terms of the possibility of having something much better than what the last numbers have shown in Brazil between 3.5% and 4% negative number. I mean, our positive numbers are closer to 2.5% reduction in GDP and our worst-case scenarios show, in terms of provisions and delinquency, go as high as negative 5. So we believe that we are covering what would be something that we can see today with good margin in both sides, compared to what market expects today.

Delinquency will go up, like you mentioned. In the worst-case it can go even upper than the number you gave, I mean, if you have a 5% of GDP fall, which we do not believe, but we are putting as a scenario, we could see higher numbers than 60 to 70 basis points increase in delinquency.

And the ROE for the coming years, it will depend a lot on the scenario that we see for Brazil. If we see some recovery, at least improvement in GDP conditions, I think ROE will improve because we are keeping the books very clean, we are doing all the provisions that we can do and especially, it's a good opportunity to mention the fact that we have... we believe that as the economy improves, ROE will improve and cost of capital will reduce. But this gives me an opportunity to mention something about the additional provisions that we have in our balance sheet, provisions above the Central Bank's level that we have. Today we have R\$ 11 billion of loans and losses, which are above the Central Bank's level, which is almost 1/3 of the full provision that we have. This number, I mean, how do we work with provisions, those provisions? We are basically trying to keep the expected loss fully provisioned. So, in retail this is quite easy because we have models to show the expected loss each moment for our books, so we apply the models in our portfolio, we come out with a big number of provisions and then we reduce what is required by the Central Bank, and this is part of what we call "additional provisions".

For the corporate side it is more complex because you don't have models that can really apply, so corporate sides are very specific things and very big numbers. But we also do in a more..., especially given the economy and especially looking at the specific segments and specific situations, we try to make provisions ahead of Central Bank requirements, as we have assets that we believe that will not perform. So we do provisions to put additional... trying to mark to market what would be the asset value that we believe would be the case at each moment. So we keep doing provisions as we increase expected losses for retail and corporations.

But looking into the future, the moment that economy starts to recover we will see a scenario that probably the new expected losses will not come up and the old ones that might be in our books at that moment will be already covering the losses that will come up. So we will see a much better scenario in terms of provisioning quite fast, as we improve the scenario overall.

We believe that 2017 should be a better year than 2016, although it's not clear, but we believe that 2017 can be a better year than in 2016.

**Tito Labarta:** That was great, thank you very much. If I can just do a quick follow-up question. In terms of, maybe trying to get a more specific number in ROE, I mean, just given that the range that you've given on the provisioning levels, I mean, would you think this year would be closer to 17% - 18% percent level or can you stay closer to 19% - 20%? And I guess, you know, following up on the excess reserves that you have, I mean, could you use



some of that to keep the profitability maybe at the higher end? You know, I just want, in terms of what you're thinking in terms of what ROE could be this year. I know it's difficult to say, but I just want to get, you know, what you are thinking about that in terms of what you are comfortable with, given the excess reserves that you do have.

**Roberto Setubal:** Tito, I believe that the guidance that we are giving to you including the 33% tax rate make it very easy to you to make up the numbers and come up with the kind of ROE that we can work. In that range, with the guidance you will find, I mean, the midrange, the positive range, the negative range, we believe that ROE will be pretty much in that range. So you can just make up the numbers you come up with this result.

**Tito Labarta:** Okay, fair enough. Thank you very much.

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

**Jorge Kuri:** Hi, good morning everyone. I have two questions. The first one – and bear with me, I am really not trying to be difficult, but I do you want to understand – what gives you confidence that your current more negative guidance is fair? You were rather optimistic about delinquency over the last 12 months, particularly 12 months ago, despite a good level of skepticism from the market. I think you talked about “derisking” and how you've changed the balance sheet and, you know, how you thought that was going to be enough to contain any asset quality problems, you know, on the consumer side you seemed not very worried and obviously things didn't play out that well, your bad debt formation was up 40% last year, your consumer NPLs went up 100 basis points only in the last 6 months.

So, look, I get it that the macro environment was tough and it's easy to say that asset quality was worse because the macro was worse, but in reality the risks were clearly that that was going to be the case. So, prudence in the expectations was probably called for. So now you've come with a much more negative message. So the question is, look, what gives you – and us, I guess – confidence that current guidance is not again too optimistic, that you are not underestimating the macro and banking risks? You know, you are expecting 2.5% contraction in GDP, but consensus is already above 3%. So, how do we get confidence on what you are saying?

And I'll ask my second question later. Thank you.

**Roberto Setubal:** I think that you are absolutely right, we started the year with much lower level of expectations on delinquency as we started the year, also at the beginning of 2015, the kind of macro environment was much better expected at that moment than the one that played down the year. So, I think that we should have made more clear the kind of expectation that we have for the year in terms of macro growth or recession at that point, and we didn't make it that much clear. Now we are making it very clear. Like I mentioned to you, these provisions were made based on the positive number, the smaller number would be something that would be pretty much in line with a 2.5% negative growth for the year in Brazil. The top number would be more in line with 5% negative. So the mid-range that we are talking about here, in this case, is something around 3.75. So we believe that this number will



be as we expect. If Brazil's development for the year, the economy stays in that range, provisions will stay in that range as well.

**Jorge Kuri:** All right, thank you Roberto. And my second question is: What's happening on your credit card book? You obviously have more credit cards than anyone else, I think it's roughly 30% of your consumer loans, that's two times more than the average of your peers. Given the unemployment and consumer recession, because it is exactly that that we're seeing in Brazil, how is that book performing? What is the NPL ratio on credit cards today? What was it a year ago? How much do you think it's going to increase and to what extent the provisions that you've included in our guidance are specifically directed to credit cards?

**Roberto Setubal:** Okay, fair question Jorge. I think that credit cards is a higher risk than other consumer risks, like mortgages and payroll loans. We have been very careful in that book, we have been declining the book the last two years, so we have been doing controlled risk management in that book. I don't have the numbers of NPLs here, we do not release that number, but definitely it is included in the NPLs of individuals that we show here, okay?

It's higher, a little bit higher than the average for sure, because payroll loans and mortgages are much lower than credit cards, but in our case at least we can compare with the market according to Central Bank numbers and we are below market delinquency in credit cards.

**Jorge Kuri:** All right, thank you Roberto.

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

**Carlos Macedo:** Good afternoon Roberto, good afternoon gentlemen. Thanks for taking questions. A couple of questions. One is in margins, we saw the margin, you know, margin with clients kind of basically hold serve this quarter, and now looking into next year the guidance doesn't really stay much of an expansion in margins, basically saying that margins will stay flat. Could you give us a little bit of your view on what you expect for the Selic and, you know, you always talked in the past about how the repricing of the book would still provide some support to margins going forward and, you know, whether you think that's still the case or whether point out where, you know, that's not really going to happen given the outlook for Selic?

And then I have a second question.

**Roberto Setubal:** Okay. Our guidance was based on the fact that we expect Selic to be stable for the year, what we expect in terms of financial margins with clients. Because of that and because of the overall situation, we are not expecting spreads increase along the year, so this is based on spreads that we were practicing at the end of the year.

So, repricing will take place because still at the end of the year, it was a moment that spreads were higher than most moments before, so some repricing will take place, and this is the reason why margins with clients are going ahead, are growing more than the credit



portfolio. Because of, basically, repricing. But we are not considering here that additional increase in spreads will take place in the market.

Along this year of 2015, we had a lot of price increases, spreads increases, as Selic was increasing spreads were increasing. But since we are not expecting Selic to increase, we do not expect major movements in the spreads. So we expect spreads to be pretty much stable compared to what we have.

**Carlos Macedo:** Okay, thank you. So no increase in Selic but no decline... no cuts on Selic either, is that the assumptions you're using for this forecast?

**Roberto Setubal:** Yes, and we're basically using spreads that we are doing... we are practicing at the end of the year of 2015; stable in 2016.

**Carlos Macedo:** Okay, thank you. Second question: your capital levels are really strong, you know, common equity Tier I above 13%, we know that CorpBanca will dilute that a little bit, but still, you know, loan growth in Brazil – which for the purpose of capital ratios is important – you could be a negative territory and still, based on your guidance middle of the range, will do, you know, 18% ROE. So with a 30% payout you will accumulate a significant amount of capital assuming that, you know, things don't completely unravel. When do you start thinking about increasing the dividend payout? I mean, is 13.5 going to 12, but soon coming back to the 13. I mean, when do you start considering that kind of possibility?

**Roberto Setubal:** We have a long tradition of keeping our dividend payout between 30% and 35%. Maybe 20 years, maybe even more than that, our payout was in that range. In many years we have used a surplus of capital that we were generating to buy things and to invest and do other things. In other years that we didn't have that much opportunity we bought back shares and we kept a dividend pretty much in that range.

Buying back shares is something that we do often. If you look back over the years we buy back over the years a lot of shares and this last year, for instance, we bought almost 2% of the capital of the Bank back. So at the end of the day the earnings per share are increasing in addition to the 15%, 16% nominal number of the earnings of the Bank, is additional 2%, we can make it back close to 18%.

So we might buy back shares as long as we see that this is a good investment for the Bank and I believe that at this moment shares are in the very low price for all the reasons that we know, but in the long-term we believe that our ROE will go up in 17, 18, especially given the assumption that Brazil will improve a little bit. Not that much, but this will be... just a small improvement in Brazil will be enough to make it possible to the banks to increase ROE, especially because we are keeping very close track on delinquency and doing all the provisions that are needed. We are, like I tried to explain on the expected loss, we believe that we are ahead of the curve and [0:50:07 unintelligible] clean, so by the time that the economy starts to improve we won't have things coming from the past that would be necessary to pay, so we will be open to have... to enjoy the full new scenario in the future.



**Carlos Macedo:** Thanks Roberto. So just following up, you mentioned that, you know, the levels now are attractive for buybacks. The program you have now is roughly half of what you did... a little bit less than half of what you did in 2015. Is it easy to increase the size of this program? Is this something that, you know, depending on the situation, the generation of capital that you are able to put together is something you consider? I mean, you know, could we have another year like 2015 in buybacks if the opportunity presents itself?

**Roberto Setubal:** We can have, I do not, I'm not giving you a guidance, but this is a possibility. We have been announcing numbers of buyback and once we reach the level that we have been authorized by the Board we go to another... this depends on the situation, the conditions, the perspectives. So, these numbers is something that we believe is a small number for the Bank, we can cope quite well with this kind of acquisition, buybacks, given the scenario that we're seeing. So for the moment we believe that this is a good start and along the year we can see how it develops.

**Carlos Macedo:** Okay. Just one final question then wrapping this up, is there a maximum number for Core Tier 1 that you consider that you, you know, that you wouldn't want to go above and you would have to reconsider maybe that historical dividend policy?

**Roberto Setubal:** We believe that between Core Tier 1 fully loaded we would not go above 12%, on a stable basis.

**Carlos Macedo:** Okay, thank you Roberto.

**Roberto Setubal:** Thank you.

**Operator:** Our next question comes from Mario Pierry, with Bank of America.

**Mario Pierry:** Hi, good morning everybody again. Let me ask you two questions. One question more specific and then one general question. Let me start on the specific one. Your guidance for provisions is net of recoveries, however, we have seen the recoveries have totaled close to R\$ 5 billion in 2014 and 2015. You are making a significant investment right now with the acquisition of Recovery. I was wondering, what kind of recoveries, what is the, you know, nominal amounts or nominal level that you expect in terms of recoveries in 2016? Could we see a number much higher than the 5 billion that you have been delivering?

And then the more general question is, you know, you are guiding, basically guiding, for negative real loan growth in 2016, your peer is also guiding for negative real growth. My question then is related, if there is any concern, or we could see the government trying to interfere in the system again, you know, if we could see public sector banks becoming more aggressive in lending, spreads? Also, how do you think is the relationship with the government now? Clearly last year the system was targeted by the governments, your tax rate increased by 5 percentage points, you still grew your earnings 15% in 2015, your ROE is still, you know, about 22%, 23%. So, are there any concerns that, you know, that the government could try and interfere in the system again in 2016? Thank you.



**Roberto Setubal:** Well, talking about recoveries, we are not putting any influence on the recovery acquisition in our numbers. So there is no impact in the guidance given the fact that we are in this process of acquiring Recovery, although we plan to use Recovery, which probably might increase our performance in recoveries in general. But we believe that, in this scenario, recoveries are much more difficult. Recovery is something that improves a lot when the economy improves. So we are not putting numbers in these improvements. So we are basically keeping recoveries in low levels, between 4 and 5 billion, more towards 4 in this guidance. We do not believe that in the year of 2016 we will have a major improvement in recoveries.

It's possible that, down the road, when the economy is much better, a lot of things that has been written off currently will recover. I expect recovery to improve at the end of the cycle. Not now.

**Mario Pierry:** Okay, and the question...

**Roberto Setubal:** Yes, the second question about the... look, we have never been influenced by the government. I think that the interference of the government in the system has been always gone through the public banks, which accounts for more than 50% of the market share. But they have never influenced our actions. So this has never happened in Brazil, so I do not believe that this will happen in the future.

**Mario Pierry:** No, no, exactly. So that's my question: Do you think that the government could use the public sector banks again in order to try to stimulate the economy and how do you think that the government looks at your profitability right now, if they could come up with new taxes in the banking system?

**Roberto Setubal:** The good thing about having federal banks in Brazil is the fact that the government understands the dynamics of banks, they know the problems, they know about the delinquency, they know about the capital needs. So it makes the conversation much more rational because they have on their side also people that will be influenced and will impact that. So... and obviously, tax increases, additional budgets in the system will make credit even more difficult, which I don't think, at the moment, is the interest of the government. I think they would like to see banks to be easier and to increase more the credit offer than try to collect some more taxes. We do not expect this to have any influence in our business.

In the public banks, it is hard to say. I think they have announced, I know what's in the newspapers, they have announced some additional lines which are much smaller than lines that we..., the amount of lines that they put in the market in previous years. So for the year they announced this R\$ 83 billion of additional loans in programs with no subsidy. I'm not sure about the demand for those lines with those subsidies, maybe some of them, like agricultural loans, which are a very strong demand in Brazil given the exchange rate, you might have additional demand. But not necessarily for all that number. So, I don't think that this will be a major impact in the banking market.



**Mario. Pierry:** Okay, thank you very much.

**Operator:** Our next question comes from Jason Mollin, with Scotiabank.

**Jason Mollin:** Hello everyone. As always, thank you for the detailed presentation call. Roberto, can you provide an update on the strategy for the Latin American regions, specifically where do you see the greatest opportunities outside of Chile, where Itaú will have a 12% loan market share post-merger? You mentioned Argentina, in the Portuguese call, is a small investment for Itaú currently, but they are good prospects with President Macri, and also what is your view on Mexico and the opportunities they are? Thanks.

**Roberto Setubal:** Okay. We see Latin America as a good opportunity for Itaú. Our experience is that we can perform quite well in this market, so we believe that we should increase our presence in other countries in Latin America.

Currently we have presence in Argentina, Chile, Uruguay, Paraguay and Colombia. We believe that we can increase our presence in Chile, Colombia and Argentina. We have a good position in Paraguay and Uruguay; those are leading franchises in those countries, with very good level of profitability. In Chile we are acquiring CorpBanca and in Colombia basically we are entering with CorpBanca subsidiary. In those two markets we will become 4<sup>th</sup> and 5<sup>th</sup> biggest bank in terms of assets in those markets, but we believe that we can go up and do additional acquisitions in those markets in the future.

In the moment, in those two markets we believe that we have to make the integration of the banks that we have acquired with our bank in Chile and in Colombia CorpBanca had acquired two banks, which are already in the process of integration. So I think that for the next two years at least, we probably will not acquire anything in those countries or I will not look forward to acquire anything, because integration will take a lot of efforts and this will be our strategies: to put those two banks integrated and to make out of them a good franchise.

Then comes up Argentina, which I mentioned to you that we have a small position. I think the market expectations are very high in Argentina. Let's see how it develops. It's a great opportunity for us, with the presence that we have today already there we can grow a lot in Argentina if the conditions show the right ones in the future.

Then we have Mexico, I think that's the market that we are not in. Mexico and Peru would be the next two markets for us that we would see as a potential for Itaú to be present through an acquisition. But today we are not seeing anything in those markets that would be of our interest.

**Jason Mollin:** Thank you very much.

**Operator:** Our next question comes from Saul Martinez, with JP Morgan.

**Saul Martinez:** Hi, good morning everybody. I have two questions. I hope you can hear me, I'm actually outside of the office, but first a very specific question and I have a broader



question. On NII I'm still a little bit perplexed by the guidance and, if I take your 4<sup>th</sup> quarter run rate for NII from client activity and I carry that through, just the fourth quarter level through 2016, I get to the high-end of your guidance, I get to something around 4%,4 plus percent. So effectively your guidance implies that, at the midpoint below that, the run rate in 2016 for NII can be lower than what it is currently. So, and I understand directionally the guidance in terms of, you know, mix shifts, less pressure from spreads, maybe FX, but can you give a little more granularity around and quantify a little bit the impact of these effects that in the 4<sup>th</sup> quarter alone you had a repricing benefit net in mix shift to 400 million. So it's hard for me to see that that essentially goes away from one quarter the next that quickly. So if you can just give a little bit more color on that, especially in light of your competitors being a bit more optimistic about NII.

Secondly, this is a broad question. You know, forgive me, spiritually it's not mentally confrontational, but the question is: why should anybody buy your stock right now? And if you can make the equity case for Itaú, because I think a lot of the investment story for, you know, a part of the investment story has been that you, the competitive backdrops gotten better that you have some benefit from repricing that buffers the negative impact on asset quality and allows you to maintain high profitability. And you certainly has done that, your profitability has been impressive in this tough environment. But the ROE, according to your guidance, you had 18% long-term rates or not much lower than that. So, you know, clearly right now you are not generating that and the outlook for 17, 18 and 19 is highly uncertain and any cost of equity reduction is really outside your control. You are buying back stocks, so you certainly feel like there is value, but I'd like to hear in a little bit more detail how management, how the company feels the investment in Itaú and what you think the investment story is for Itaú for investors?

**Roberto Setubal:** Okay, let me start with the margin. I think we have a lot of seasonality in the 4<sup>th</sup> quarter, so I don't think that the reference of the 4<sup>th</sup> quarter is a precise one. We have some seasonality in terms of use of products that changes over the year, so there is no full compliments with the idea that the 4<sup>th</sup> quarter you can reapply every quarter because of these seasonality effects. This is one thing.

Second thing is the fact that from 3<sup>rd</sup> to 4<sup>th</sup> quarter, part of the increase was due to the exchange rate, the average exchange rate between the two quarters. Although the final exchange rate was stable, the average one was... we have some devaluation along the 3<sup>rd</sup> quarter that became fully revenue in the 4<sup>th</sup> quarter as the long book in other currencies was bigger throughout the quarter. So this had some impact in the 4<sup>th</sup> quarter increase in terms of margins.

And, like I mentioned before, we are not putting in our guidance spread increases along the year. It's only repricing okay. So, if we have additional spread increases we would be able maybe to increase more spreads. But really we're not seeing spread increases basically for two reasons: one is because we expect Selic rate to be stable; and second because we believe that the current market conditions, we do not believe that we could be able to increase spreads as we have increased along the 2015 year.

So in that sense, we might, assuming those conditions as true, we believe that these numbers reflect what we could expect. If we believe that we can have higher level of spreads, which could be the case, then margins could be higher than that.



And on the business case of Itaú, I think that Itaú has most of its business in Brazil, so Brazil is going through maybe the worst moment ever in terms of economic growth, but I believe that Brazil, at some point, will be better than is today, will improve, our GDP, at least might improve somehow, not that much in the short term, but we believe that it will be better than it is today. So as Brazil improves, we believe that capital ratios..., cost of capital in Brazil will reduce and the performance of the Bank will improve. ROEs will be higher in the future, we believe.

We always have kept difference between cost of capital and our level of ROE, which we believe will be the case in the future. Maybe today we have not had this opportunity, given the fact that the year was much worse than we expected by the end of 2014. Just to remember, the end of 2014 everybody was considering growth for 2015, and we ended up having a negative GDP of almost 4% in the year. So we were not really foreseeing this.

Looking this year we believe also, like I mentioned in our guidance, our guidance is based on a negative growth of 2.5% to 5%, so it seems something in between that range. So this is something that... we do not believe that this... you can expect that this will be going on and on, we believe that we probably are in the bottom moments and things tend to improve in Brazil.

I believe that one source of improvement will be the external accounts, which are improving quite fast here in Brazil. I'm not sure if you have followed, but Brazil, in terms of current accounts deficits, probably, I mean, given the current projections, some houses are already projecting a neutral, so zero deficit. So we are closing fully the gap in this year and next year. So these things change a lot the perspective for the country and I believe that, under better conditions, Itaú will perform with ROEs much above cost of capital and above my peers.

Another important point is that we are really making the effort to keep the books very clean, provisions very updated so that by the time that the economy starts to recover, we are not be carrying over things from the past. So, we believe that, as we keep books very clean, we will be able to very quickly improve ROE.

We also have a business model that is very resilient, especially in a condition like the one we are living, given the very strong amount of revenues that comes from services, and this makes up more than almost 50%, more than 50% of our profits last year. And this is not affected by this GDP issue and the higher risk in our long book. So it complements quite well our long book and makes our profitability very resilient.

So if we keep the books clean like I am trying to explain, I believe that once Brazil recovers we will be able to grow our books quite fast as well and profitability will improve quite fast.

And, in addition to that, I believe that we are working very hard in terms of improving the efficiency of the Bank and the quality of the Bank. Since we do not have space for growth, we are investing a lot in improving the Bank, especially in technology, in order to make the Bank more efficient, and also preparing the Bank for the digital world, which we believe will be coming very soon and we have to be well prepared for that.

So I think that the franchise of Itaú overall in terms of business model, in terms of diversity of business, it's quite good. It's a great franchise. Clearly I think we have conditions to outperform the peers, the average market at least, so I am assuming over the year that Brazil will have some kind of improvement. I think that the current prices of Itaú are somehow low, I would say.



**Saul Martinez:** Thank you very much for the thorough answer. I really appreciate it.

**Operator:** Our next question comes from Lucas Lopes, with Credit Suisse.

**Lucas Lopes:** Hi, good afternoon. Thanks for taking my question. It's my understanding that the large corporate segment has driven the mature increase in cost of risk in the past year. How does the Bank expect the composition of loan losses provision expenses to be in 2016? For instance, do you expect individuals in the SMEs to deteriorate the most this time? Any color on that would be very helpful.

Also, if I may ask a second question, a follow-up on the NII 1, has Itaú taken into account any repercussion from higher NPL on margins in the guidance? I'm asking this because of the provisioning guidance [1:14:13] a sharp increase in NPLs and, after six days due, the bank cannot accrue interests in a loan, which reverberates negatively on NII. That's it, thank you.

**Roberto Setubal:** We believe that, I mean, talking about the delinquency for next year, we have very clear that the retail segment will have increases in NPLs, most of the provisions increase is related to retail, much smaller increase in middle market and corporations. Most of the provisions increase comes from the retail segment. This is what we expect for the coming year.

**Marcelo Kopel:** And Lucas, for the...

**Roberto Setubal:** Marcelo is answering the other part of your question.

**Marcelo Kopel:** ... and for the NII growth and the impact of the non-accruing loans, yes, it is embedded in the equation that as well. So, it's one of the components that is part of the equation on how we project NII going forward.

**Lucas Lopes:** Great, thank you.

**Operator:** Our next question comes from Victor Galliano, with Barclays.

**Victor Galliano:** Hi, thank you for the opportunity. Just a couple of quick questions for me. On CorpBanca in the past you said that this would absorb, I think I heard in the past, like 80 basis points on the acquisition. I hear you now saying more 100 basis points. Has there been any material change there? Is it an exchange rate thing? Can you give us some clarity on why that's moved?

The second question is about the RWAs came down in the fourth quarter. Is that a recalibration of credit risk along the book on the back of the new regulation that Central Bank came out?



And lastly, sorry, third question on insurance, I just want to get a sense of why are you thinking that there was, or why you can tell us there was no earnings growth year on year in the insurance segment? Thank you.

**Roberto Setubal:** Okay, let me start with insurance earnings. Basically we are moving out of some lines, as we have already announced, and concentrating in another few lines. So, this movement, we have some adjustments in the business, which has made it more difficult to grow revenues and profitability.

We also have, the moment that the crisis is taking place today, we don't have that much space to grow the insurance business. So we expect the insurance business to grow pretty much in line with services for the coming years, and this year specifically we have these adjustments coming from the sales of some business lines and some reduction in some more lines that we are moving out, closing down the business.

About the 80 basis points that you mentioned of CorpBanca impacting in our capital ratio, and now we are moving up to something closer to 100, basically one reason is the exchange rate. It became a much bigger book given the currency exchange rate, and I think this is the major influence, and the second one is some more fine adjustments that now we have more information on their balance sheet so we can have a much better calibration on that.

And Marcelo will answer about the RWA.

**Marcelo Kopel:** Yeah. On your specific point on RWAs, the change from the Central Bank affected the sureties, the derisk-rating for sureties, and then I also mentioned the dollar movement, and also the consumption of tax assets.

**Victor Galliano:** Okay, thank you. Just a quick follow-up on the CorpBanca, if I could. So there is no, as you said, it is the FX rate, is there any sort of hedge in place with regard to this? Because I know it's a dollar base deal for any of the price and obviously, you know, the agreement has been in place for a long time.

**Roberto Setubal:** About the hedge for the commitment of capital increase, you are talking about?

**Victor Galliano:** Yeah. Well, just the price of the deal, because I know it was struck in dollars back in 2014.

**Roberto Setubal:** Yes, the 80 bps relates much more to the size of the asset that was impacted by the capital, the size of the asset, when we translate it into reais, it became bigger than it was previously. That's why we have this additional around 20 bps impacting the capital ratio. It's not because of the...

**Victor Galliano:** Okay, thank you.



**Operator:** Our next question comes from Ali Rehan, from NN Investments.

**Ali Rehan:** Hi. Hello, this is Ali Rehan, just a quick question on your guidance provisions. You mentioned that the range of GDP that you're working with is between -2.5 and -5 and the range of provisions is 22 to 25 billion. But for a 2.5% change in GDP you would just expect provisions to increase by 3 billion? That sounds a little bit too optimistic. Would you agree with that?

**Roberto Setubal:** Yes, pretty much, given the level that we are already, this is what we expect, because this would mean an acceleration, I mean, 5% this year, the impact in 2016 would be basically on the margin of what we are seeing today. This would give more impact in 2017, if we have this kind of environment. We have additional impact in 2016, in 17, I mean. Do you understand?

**Ali Rehan:** Yes. I just want to understand in terms of how you... Sorry!

**Roberto Setubal:** Basically what we're seeing, we have a base case and, as this deteriorates or improves, the impact was not going to be in the full year. The full year impact of that would be down the road in the year ahead. So we have a middle case...

**Ali Rehan:** In 2017.

**Roberto Setubal:** Yeah. In 2017 if we have a better environment for 2016, will be much better in 17. Or the worst-case, in 17 if we have a 5 negative in 16.

**Ali Rehan:** Okay, that's clear. I'm just also trying to understand about how you factor in corporate delinquencies in your guidance, because for retail you can use your models to project what the [1:22:36 unintelligible] requirements you would require, but for corporates they can be pretty lumpy, right, and it is hard to kind of project which corporates are going to go bankrupt and how much provisioning you will require. How do you work on the corporate provisioning?

**Roberto Setubal:** It's much harder, as you mentioned. We have to keep very close track on corporations in order to understand that, but mainly we keep a good track on sectors that are suffering more, we keep the much closer track than other sectors that are doing fine. So we can basically look through sectors and see how this would affect our books, how our exposure is to that sector and how this could impact the provisions. But you are right, it's much more imprecise the kind of expectation that we can have in the provisions for wholesale book.

**Ali Rehan:** And then quickly and finally, do you think there is also... in what circumstances would the provisioning guidance be higher than the 25 billion that you are guiding for?



**Roberto Setubal:** Basically from today I just could say that only if GDP would be even more negative than the range I gave you, so would be worse than 5, or maybe coming from something that we don't see. But today we do not see that.

**Ali Rehan:** Okay, thank you.

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

**Roberto Setubal:** Okay. I just want to thank you for being with us during this call. I think it was an important opportunity for us to clarify how we are basing our guidance for 2016 and ahead. I believe that we could have, we have answered all your questions, and please feel free to look for Marcelo if you have additional points that we were not clear enough during the call.

Thank you very much for being with us this time. If see you next time.

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