



**International Conference Call  
Itaú Unibanco  
Fourth Quarter 2016 Earnings Results  
February 8<sup>th</sup>, 2016**

**Operator:** Good morning ladies and gentlemen, welcome to Itaú Unibanco Holding conference call to discuss 2016 Fourth Quarter Result.

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). 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 February 14<sup>th</sup> by phone, on +55 11 3193-1012 or 2820-4012 – access code 4283325#

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 Setubal**, Executive President and CEO (Chief Executive Officer); **Mr. Candido Bracher**, Deputy CEO, **Mr. Caio Ibrahim David**, Executive Vice President, CFO (Chief Financial Officer) and CRO (Chief Risk Officer), and **Mr. Marcelo Kopel**, Investor Relations Officer.

First, **Mr. Roberto Setubal** will comment on 2016 fourth 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. Roberto Setubal**.

**Roberto Setubal:** Good morning and good afternoon for all of you, thank you for being with us at this moment. We are presenting our fourth quarter results, closing the year of 2016 and I have some comments, general comments on that. I will not go in too many details in the pages since I believe that you have seen already the numbers, so you are aware of the overall results.

I think that we had, starting in page 3, we had a strong fourth quarter, very solid in terms of results, especially because of the NPLs falling very clearly, very solid both over 90 days and also the 15 to 90 days NPLs are coming down, and margins in general were okay, and I will comment on margins. Although the number here showed a fall, I believe that we have a clear explanation for that, but overall in this page you can see green numbers in general on the right side that show that we had a strong



quarter with ROE of 20.7%, which given the scenario that we are living here in Brazil, the economy recession, very strong 7% accumulated in 2 years. We believe that this was a strong result. And I would like to discuss with you why after 7% reduction in GDP we could present you, as a bank, a 20% ROE.

When you look year-over-year, the year-over-year looks, I mean, we had a lower profit, 7% lower than last year, ROEs falling and NPLs increasing when we compare December to December. But like I mentioned before, fourth quarter shows a perspective for the next year, for 2017, since it's already much stronger and improving situation compared to previous quarters in 2016. ROE and ROA both very strong, and results on page 6 also strong. Here margin with clients in fourth quarter, although the number shows 3.9 negative, we have also a year-over-year negative. It was due to impairments that we have done in private, in securities that we hold from private companies. But when we clear the margin of these impairments, we can see some growth in the fourth quarter, and year-over-year a small growth. It shows the trend, I think that we are coming out of the worst moments of the economy and this clearly can be seen in the numbers.

Our market activity, trading, and banking activities, we are very strong in the year, we had a very good year after another good year in 2015, and in the quarter, specifically was very strong with a growth of 14% in revenues compared to previous quarters. Fees in general and commissions for services also increasing, year and the quarter, and the trend better in the fourth quarter. Insurance better as well, the trend compared to the year-over-year. So, we are seeing overall business conditions improving in Brazil and revenues coming to some recovery.

I think the best scene about the fourth quarter was the delinquency ratio, which is falling, and provisions, which are coming along, which means they are also falling. And we will talk more about that in the following pages, but this probably is the most important thing that we have in the results. But, overall, also the expenses have come down in the quarter, under control year-over-year, especially considering the average inflation, last year was about 7% to 8%. So, I think we're coming okay in terms of expenses, below inflation. And net income falling in the year-over-year, but increasing in third quarter to fourth quarter.

One important thing here, next page, Latin America and Brazil split in terms of results. We had a difficult year in terms of results in Latin America, especially due to the consolidation of CorpBanca, which happened in April this year, we have made many provisions to adjust the balance sheet of CorpBanca to our policies, accounting policies, and provisions policies. So, we had a year of integration, additional expenses leading the integration of the two banks, but we believe that looking ahead things will be much better, and we believe that after this lost year in CorpBanca this year we will have a turnaround for a positive result in 2017.

In terms of the what we forecasted and what we are giving to you this year, I believe that we pretty much have a good forecast at the beginning of the year. Actually, we have made some changes in the forecast, especially after the consolidation of



CorpBanca. We changed some of the numbers, but basically it was due to the consolidation of CorpBanca. So, I think that the numbers look okay in general, and specially provisions below the range that we aimed, which in our view is good news, and specially the fact that in Brazil we have not changed the provision range. We basically changed for the consolidated given the CorpBanca thing and we came below the range that we have given for Brazil. I think that at the beginning of the year we had Brazil under a much more stressed scenario given the political scene, and at the end of the year, especially along the second semester, things improved, economy, the political scenario have reduced the stress and the economic scenario is much better than it was at the beginning of the year. So, this has also been an important factor, so that our loan losses good shape by the end of the year. Commissions pretty much inside the range that we gave. Expenses also pretty much inside the range that we gave at the beginning of the year. So, overall, I think we came along well through the two years of recession in Brazil with a 7% GDP drop and we are delivering an over 20% ROE. And this basically is due, in my view, to the business model that we are making clear on slide 9. We have a business, we are a bank for sure, but a bank that, more than loans, we have a lot of services, asset management, credit cards, acquiring services. So, we consolidate a much more expanded business than a traditional commercial bank, and that's why we could come along the crisis in such a good return.

But when we go in details, and this is very clear here, we have the credit business, which is delivering a lot of ROE and it's delivering a much below ROE of 9%, which is much below the cost of capital for Brazil. So, this was a tough year for credit given all the things that I have already mentioned, but on the other side, insurance services and trading we had a good year and they performed quite well. Especially insurance and services, I think we have a great franchise in Brazil, asset management and payment in general in Brazil, integrated franchise that really is not affected by the credit cycle. It's basically a business that is very consistent over time and this is the basis for the level of returns that we can deliver even during more tough years. The level of capital allocation for those businesses are much lower and the credit, our goal is to perform cost of capital and credit and have the other businesses services and insurance at on our return above cost of capital, because they perform, they have much lower cost capital allocated, they perform much above cost of capital for them given the franchise that we have, and this has been very constant over the last 10-20 years that we have built this franchise.

On the next page, we see how our credit portfolio developed. It was a tough year given the recession in Brazil again, so we had a net change negative of 6% year-over-year, and basically all the segments had a drop in nominal terms of credit and loans and this was basically due to the recession in Brazil. And if you compare third to fourth quarter to the year, you will see the changes are much we have on the margin things are improving given the economic conditions on the second semester are better than they were at the beginning of the year. So, things are improving. So, on the margin, you can see some growth, even considering the seasonality, and things tend to improve in 2017 as you will see on the guidance.



The margin with clients is growing, it's still growing. We had a very good quarter with increasing margins, especially if you do not consider the impairment, which, in terms of accounting, we do on the margin. But on a regular, recurring business, we like to make the impairments on a separated way. So, numbers are improving the margins. Margin with markets, which accounts for trading and banking activity, it was also very positive for the full year, and in the quarter it was a very good year as well with a R\$2 billion of margins in the quarter at strong year, in Brazil is improving in general conditions, and markets are recognizing that, so market [...] are increasing in Brazil, interest rates reducing, risks reducing in general, and our market-making team is taking advantage of the situation.

In terms of credit quality, I think this was the most important thing about the quarter. It was an important fall both in terms of Brazil and the consolidated numbers. We end up the year with a 3.4% Selic ratio over 90 days. It's the best since 2015, so we can see much below all the previous quarters, and not much above historical levels, the best historical levels are at the end of 2014. So, we are getting there. So, this is an interesting improvement in the quarter. And when we see in the lower area of the page the different business delinquency, we also can see improvements in all the business lines improving in terms of over 90 days' delinquency. Also, when we look the early delinquency, which is a 15 to 90 day on page 14, we can see very clear improvements in the trend. There is some positive seasonality in the fourth quarter in Brazil, especially due to additional salary payments. We have one more salary in December given labor laws, and also the industrial activity increase a little bit given the Christmas season. But overall, it was a very important improvement, and we end up 2016 at the same level of early delinquency that we had in 2014. So, this is really very positive news, especially considering that after 2014, we had two years of drop in GDP that has accumulated 7% drop in GDP in two years, and we end up with fairly delinquency numbers and the same condition that we had two years ago, heading for a 2017-year very positive as well.

NPL creation trend has come down, going down clearly, starting 2015 then basically we are getting lower and lower NPL creation numbers. Renegotiated loans also has decreased, so the level, the stock of renegotiated loans have decreased, which shows that, over all, we're not seeing things getting worse. We are clearly seeing things getting better, and they are getting better because they are really getting better, not because we are renegotiating more that two loans, and this can be seen exactly in this page.

Provisions, when we look segment by segment on page 17, also the trend is very positive, both wholesale and retail. We have positive trends compare to previous numbers. Latin America we, as I mentioned before, CorpBanca was the major problem we had this year, we are adjusting CorpBanca numbers to our policies and we believe that over next year we'll have a much better year in CorpBanca and in Latin America in general.

On page 18, we can see the coverage ratio, which is very, very strong, 222 is a number that we have never seen here in Itaú, I believe it's a very strong level of coverage, even



including the renegotiated loans we still have more than 100%. So, in general, things are in very good conditions in terms of the level of provisions that we have in our balance sheet. And we make it more specific in the level of provisions, it's 37.4 per year, and 11.8 are provisions that we do according to Brazilian Central Bank requirements, then we have additional provisions for those clients, which are, which we believe need additional provision than the ones that are requiring by Central Bank, which are divided in those two levels: one is the renegotiated loans, we make additional provisions for renegotiated loans in addition to what is past due; and even for loans in general that are past dues, usually we have more provisions than the ones which are basically required by the Central Bank.

Expected losses, we also have provisions for expected losses in retail. This is something that we do usually. In the wholesale business, we also have been doing additional provisions additional to what Central Bank requires in order to cope with the very complex situation that some groups have been involved with recently with the crisis in Brazil. So, overall, we believe that we have good level of provisions for the level of risks that we have in our balance sheet. We are very comfortable with that.

We have been doing provisions above the level of NPL creation for many quarters now, as you can see on the page 22, and we are anticipating a lot of provisions in order to make our balance sheet very strong, we are basically trying to market to market the quality of our credits in terms of having provisions in addition to what we believe in addition to what is necessary by Central Bank, but according to what we believe is the right value of that asset.

In terms of securities, we also have done some impairments in credit with the provisions, the securities have done impairment, and this is what we show in page 21, the volume of securities of private sectors that we hold in our balance sheet, the level of impairment and market-to-market provisions that we have made and sectors that we have been supposed to.

As I mentioned before, we had a very strong business of insurance and services, and this is an important part of our business strategy, and here you can see where the main contributors for this service fees and commissions that we have in our revenues, we have a very important asset management business and also very important credit card business. This credit card here does not include what is above, which is the fees that are collected by the issuer side. The issuer side fees is above. Here the page with the credit and trading revenues. Here is basically the acquiring fees that we collect through our acquiring business. The idea is that those fees in general does not involve risk, any kind of credit risk is involved in this level of fees that we collect in our business. So, it has nothing to do with economic cycle, so when we have a very negative economic cycle the credit business suffers, but the service fee does not, is not affected, as I showed you when we discussed the business model that we have for Itaú.

Non-interest expenses were in good shape for the year, below inflation. We were able to manage expenses so that we had a very controlled environment since revenues are not growing given the recession. We had strong focus on expenses so that we could



keep expenses in a lower level of growth, and this has made our efficiency ratio basically stable even though the recession was very, very strong.

We have also announced an increase in our payout to something between 35 and 45 range for the coming years. We believe that given the level of capitalization of the bank after Basil III, already considering all the requirements of the Basel III, and also considering, as you can see on page 26, considering all Basil III requirements upfront, considering the Citibank consolidation, Citibank operations in Brazil that we have acquired, and considering already the level of payments, dividends, we increase the dividends. So, that at the end of the year, after this much bigger dividend than historical levels, we still have a level of capitalization, a core equity tier I level of 13.2%.

As you know, I am retiring in April after 23 years ahead of the bank, and I'm here just giving one page to give you my numbers for these 23 years: I had a 23.7 ROE during the period, our stock price has grown a lot, you can see dividends and everything more than doubled for the 23 years. I'm very happy, very glad to have the opportunity to talk most, many of you who are following this conference call. Thank you all, and I will turn to Candido, who will talk as the next CEO. He will talk about the forecast for 2017.

**Candido Bracher:** Thank you Roberto. Good morning everybody. I will speak about our forecasts for 2017. We expect our total portfolio consolidated to grow between 0 and 4%, in Brazil specifically between -2% and 2%. We think that we are in an economic recovery, it is solid, but it will be slow. Therefore, we will not anticipate a significant growth of portfolio.

In our financial margins with clients, ex-impairments, because impairment now comes together with loan losses, we expect the financial margin to decrease between 4% and 0.5% in the consolidated, between 5% and 1.5% in Brazil specifically. This is mainly due to three factors: first, the average credit portfolio in 2017 we expect it to be lower than in 2016, we expect the portfolio to grow end of the year against end of the year, but the average portfolio will be a little lower in 2017. Also, the drop in the Selic rate will affect our income with funding products in general, the Selic is the overnight rate, as you know. And finally, we may see some margin compression as interest rates come down, especially as the general state of the company has credit conditions improve in Brazil.

The result from loan losses and impairment, here we expect a significant improvement. We expect it to be between R\$14.5 billion and R\$17 billion, in the consolidated R\$12.5 billion and R\$15 billion in Brazil specifically.

In commissions and fees and insurance operations, we expect a moderate growth from 0.5% to 4.5% in the consolidated, from 0 to 4% in Brazil specifically. Here again apply our observations about the solid but slow growth in economy.

And finally, we intend to keep our firm grip on non-interest expenses. We expect them to grow once again, below inflation, from 1.5% to 4.5% in the consolidated, from 3% to 6% in Brazil.



That's basically it.

**Roberto Setubal:** We are open now to questions. 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, J.P. Morgan.

**Domingos Falavina:** Hello, good morning Roberto, Mr. Bracher, and the rest of the participants. I have two questions if I may. First one is actually in addition to a question made on the Portuguese call on the bank's profitability more in the medium term, specifically on the bank's top line. And the reason I ask is: we've seen spread rising significantly, about 25%-30% I would say in the last year/year, and a half based on the Central Bank data, and loans will be starting the year based on this guidance very similar to 2017 level, with a Selic also significantly lower, which Central Bank is sort of pushing for spreads to come down and fees seem like pretty high, pretty extensive already, and most of the provision conversion we should see also taking place in 17 and supporting inflow. So, my question is: when you look at 18 and 19, not quantitative, but at least like the lines that you see most of the earnings growth of Itaú coming from. If you could explore a little bit on that.

**Roberto Setubal:** Well, thank you for your question. It's not easy to talk about what's going to happen in 18 and 19 since we have still a little bit unstable political environment, there are some questions about, specially because in 2019 we will have a new president, we don't know who will be, I mean, we have presidential election next year. But even though given the scenario, I think that it's important to understand – and I think that we had some discussions about that in the Portuguese conference call – which is our business model. As I have it in the page, I think 9, I mean, we focus a lot on that. The credit business will have some growth, we believe that, over the next years and it might go up as economy improves. But we don't see growth there being as much intense as we had in the last decade. Last decade we had years of 30% growth. Nowadays I can't expect, as economy improves, we might have growth of 10%-15%. This is something that I believe that's possible in Brazil if we have some potential to increase the level of credits of GDP. But I don't see this growing dramatically. But what I see when I call your attention on page 9 is that our ROE in credit should improve. We had a very tough year this year, we had in 2016 9.4% ROE and we target for that column, the credit business, to be at least at the cost of capital level which we believe for Itaú is above 15% today. We are working with 15.5%.



So, we are much below cost of capital. In our view, we are destroying value on credit and this is natural thing for a bank in years of, after two years of big recession in Brazil, 7% accumulated in terms of drop in GDP, even though, I mean, we are doing okay. Last year, 2016, was a little bit better, and 2014 we performed cost of capital, it is not here, but we performed cost of capital on the credit business. We expect it probably in two years to come back to cost of capital. And this is something that it's important, I mean, to understand how we think because other part of the business model, which is insurance and services, will keep growing, especially as the economy grows. I mean, payment will grow as the economy grows, asset management depends on economy as well. So, it grows as the economy grows, it won't much lower growth if the economy does not grow. But it's not affected by the credit cycle. This is important to understand. Our service insurance business is not affected, especially in terms of insurance, we basically have life insurance.

So, those our business that are not affected by the economic cycle, so if we have a much tougher economic cycle this business will grow a little bit less, but still will be a very profitable business because this was built over 34 years of historical performance of Itaú in terms of already building a franchise in Brazil that has a very strong hold, a very strong market participation in all those segments of asset management, of payment in general, credit cards, especially on the acquiring side I'm talking about here. So, those businesses will be there and we believe that, we can really believe that, over time, as Brazil improves, we will have a very strong business in the side of insurance and services growing, and the credit will improve in order to have at least cost of capital, ok? This is the way we see it.

**Domingos Falavina:** Very clear. So, it comes from more from credit. The second question is a very quick one: Based on the income statement that you provided and the guidance, we are getting to the a mid-of-the-range guidance around R\$ 24.5 billion of earnings for 2017, and the range being 21 about 27. Does that match your internal analysis?

**Marcelo Kopel:** Domingos, it's Marcelo. I mean, you do the math. You know we can't confirm numbers, but, you know, we typically work with the midpoint of the guidance. So, if you are there, it shouldn't deviate much from that.

**Domingos Falavina:** Understood. Thank you very much and congratulations on the quarter again.

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

**Carlos Macedo:** Good afternoon gentlemen. Thanks for taking questions. First, Roberto, congratulations on your stewardship of Itaú Unibanco over all these years. Certainly, the numbers leave the room for doubt it was very successful. And I think all of us here congratulate you, and we are sorry to see you go, even though we think Candido will be more than able to handle the task going forward.



First question, you talked a lot about Brazil, talking out of Brazil, I mean, one of your legacies Roberto was to accelerate the expansion of Itaú outside of Brazil, particularly into Chile. What do you see as Itaú's role? I mean, you talked about acquisitions in Peru, in Mexico, the business in Chile hasn't gone well? You changed the terms of the partnership and, you know, of acquisition in Colombia, the Argentina franchise is too small to make a difference in Argentina or to Itaú, I mean, either buy or sell there I would say. What do you say are the next steps as the bank becomes more international?

Second question is more related to guidance. The numbers that you gave out for the cost of risk, the R\$14.5 to R\$17 billion, the cover is still very high, as you mentioned Roberto, and even if the NPLs do go down you will see this coverage remaining still very strong regardless of where this comes out. Do you factor into this number any consumption of excess provisions, which are again still at a very, very high level for you, particularly given that the cycle is turning the opposite way with asset quality, or the positive way, I guess? Thank you.

**Roberto Setubal:** Okay, starting with the Latin America and specifically with Chile, where is our major part by far of our investments in Latin America. The acquisition has done well, I think we're getting well with our local partner. We had problems integrating the two banks, we have also in Chile a tough economic cycle, not as tough as Brazil, but also tough, so the amount of provisions that we made this year for CorpBanca to put CorpBanca in the same standard as Itaú was a very big one. We do not expect CorpBanca to require the same level of provisions in the coming years, we expect that the year of 2017 and more, 2018, to be better than, much better than the numbers. So, we are very positive about what we are doing in Chile, and the team that we have there and the management that we have put in place is a very good management, both from local people and also from people of Brazil. So over all, we are very positive about Chile.

Colombia was something that was worse than we expected, we had more problems. But again, it's about time and work, and we are going to get there. It's a little bit below and behind Chile I would say in terms of what needs to be done, Chile is more ahead, I mean, we have been working more deeply in Chile and now we have a new CEO for Colombia, and we will also work hard, and I'm sure that we will put the bank in the right standard and the right operational standards, profitable, making more than cost of capital over the years.

So, we are very positive, but we understand that we have a lot of work to be done in those two franchises in the next two, three years. At this point in time, we are not really considering any additional acquisition. We want to prove ourselves that we are able to acquire something out of Brazil and make a turnaround in order to make those acquisitions an Itaú class business with ROEs above cost of capital. We have to be sure that we are able to do it, we believe that we can do, we believe that we have people, culture, management, skills to expand ourselves out of Brazil. But we are not in a hurry, we are not looking for anything at this point in time, we are pretty much concentrated in turning around Colombia and Chile.



The other question was?

**Carlos Macedo:** On the guidance for provision expenses, if you expect to include in there any consumption of excess provisions.

**Roberto Setubal:** Look, excess provisions I don't like the way you mention about, provisions they are made according to the level of risk that we perceive in our assets. So, we like to have good provisions for the quality of assets that we have, and we have the Central Bank rules, we follow them, but we like to have provisions for things that are not in the Central Bank requirements. For instance, we have provisions for, which are what you are calling "excess level", provisions in the retail business, expected losses. So, our book in the retail we have the provisions that are required, but we have additional provisions, which in the case as you can see in the page 19. In page 19 we have R\$6.3 billion of retail expected losses as provisions. In the wholesale, we also have additional provisions, and these provisions are made according to what we see and how we analyze and how we think about the quality of assets, especially in this very tough environment that we have been living in Brazil in the last two years.

So, we do provisions for specific things. Even though provisions are made in addition to what Central Bank requires, they are provisions with name and surname. So, they are there for something that we believe that's needed. If somethings like that, we had a provision for a client, which is not a past-due loan but we might have provisions given the assessment that we do to the financial conditions, we make provisions even before client might be past-due. If this client, assuming that we made a 50% whatever level provision for that client, when the client comes to be past-due, we have already the provision, we won't do it again. So, in terms, and this, given the Central Bank rules, won't be again in addition to what Central Bank requires, but it will be, I have made before it was past-due, so the provision is already there. I won't make provisions again for that client. But, on the other hand, I might to do provisions for a new client that I see that, I mean, that client might need some level of provisions.

Pretty much, we have, for instance, provisions for guarantees, which Central Bank does not require guarantee today. But Central Bank is changing the rules to increase, to put provisions also for guarantees, which today they do not require. We have already this in our excess. So, these provisions are already there, ok? So we won't do it again. So, this might, in terms of excess to Central Bank requirement, since I have already the provision, I won't do it again. So, overall, what I'm trying to say is that this is a dynamic process. Every month, every quarter, every year we have things that we provision before Central Bank requires me to do. But this is under any process, I'm always doing that, so I'm always a little bit ahead of the curve given our policy of assessing risk.

So, this is the idea. So, this number we do not have a commitment with the number what we call "excess", you are calling about "excess provisions". We have a commitment about having a consistent policy of provisioning the bank over time in terms of what we believe that is a needed provision, and this is we are not really



committed to numbers if it's generic, specific, complementary, because those are requirements of Central Bank. We want to have them in, I mean, if we have already the right provisions, this is what it's important for us. So, we do not have a commitment of that number of R\$10.4 billion, which is in addition to Central Bank requirement.

**Carlos Macedo:** Perfect, fair enough Roberto. Thank you so much and congratulations again.

**Operator:** The next question comes from Philip Finch, UBS.

**Philip Finch:** Good afternoon Mr. Setubal, Mr. Bracher, thank you very much for your presentations. I've got a couple of questions as well, please. First is regarding a 2017 forecast you've guided for financial margins with clients to -5 to -15, so 1.5% in Brazil, now given inflation is falling faster than expected and this is paying the way for the Selic to come down more quickly, what is your Selic assumption behind this guidance for financial margin?

And the second question is regarding your capital position. Clearly you are in an extremely strong position core capital, ratio under Basel III fully loaded bases at 14%, clearly among the highest globally. In light of the increase payout ratio guidance, and even taking into conservation potentially the impact of Citi on core capital assuming you get regulatory approval. What is the optimal level of capital that you would like to run the bank at going forward? Thank you.

**Roberto Setubal:** Okay, in terms of capital, we want to be above 12% in terms of core equity tier I. Core equity tier I at 12% is the minimal level that our Board requires, and we are going to be a little above that. Currently, as you could see, we are at 13.2%, page 26, and we are very comfortable with that level. We believe that we can, in the coming years, I mean, the bank is generating this 20% ROE, it's something that is generating more capital than we can use today in the bank given the conditions of the Brazilian economy and given and also the perspective of growth. So, we are very comfortable to increase the payout for the coming years. And we have still this flexibility between 35 and 45, which can, I mean, if we have a higher growth in Brazil or a small acquisition, we can accommodate in that range.

So, for the coming years, I mean, all the simulations that we have done make us feel very comfortable with that number. Basel IV, which is to be announced, we don't believe given the conversations that we have seen that will have an important impact in our numbers, and probably the idea is that we face only the next decade. So we have a lot of time to work on that.

About Selic, we are considering Selic rate pretty much as the market considers, falling probably to a level very close to 10% by the year-end.

**Philip Finch:** Very clear, thank you Roberto.

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



**Tito Labarta:** Hi good morning and thanks for the call, and congratulations Roberto on the job well done over the years.

A couple of questions also. I guess first on asset quality given the guidance you gave on provisions, which are expected to fall significantly this year. What kind of assumptions do you have in terms of NPL ratio this year? We saw some good improvements in the quarter, do you think that that level of improvement kind of continues for the rest of the year? And could there be more further improvements in 2018? I just want to get a little more color on the outlook for asset quality and NPLs.

And then my second question is in terms of expenses. We saw a good job on expenses and the guidance continues to call for slow growth in expenses, but I just wanted to get some background behind that, it's kind of, you know, what are you doing to control expenses and all, inflation coming down so that helps, but also in terms of the digitalization of the bank and, as you move towards a more digital platform, is that helping expenses? Or where do you see the cost control coming from and what you're doing to get there? Thank you.

**Roberto Setubal:** Okay, starting with delinquency, we expect delinquency to improve. I think the 15 to 90 day encourages us to believe that levels over 90 days will be lower next year, so we should probably end up the year with lower level than we are today. Not that much, but some additional improvement we believe that's possible. Although probably in the first quarter we will see, as a seasonality, some increase, as every year, every year we have some increase in the first quarter. You can see this in page 14. So, all the years we have, especially in the 50 to 90 day also, but also over 90 day delinquency ratios we had some increase in the first quarter, which is seasonality of Brazil and some improvements along the year, especially in the fourth quarter, which is also always very positive.

In terms of expenses, yes, we have worked very hard on the cost side of the bank and I believe that for the coming years, as digital strategy takes place more and more, we will see expenses of the bank growing below inflation. I think this is something, it's a kind of a target for us, we are putting a big effort on that, and it's coming along almost naturally given especially the demand of the clients are moving to digital, so this makes it much easier for us to reduce costs as clients move to digital, and we are offering more and more digital products and digital services for our clients.

So, this year we are, I mean, last year transactions in mobile grew more than 30%, I think 36% was the final number for the year. This year we believe that is still growing very high ratios although the overall level of transactions of the bank is pretty much stable given the economy situation. But more and more transactions, all kinds of transactions are becoming digital. So, this gives us the perception that when we look longer-term we will tend to have our expenses to grow less than inflation in a sustainable way for many years.



**Tito Labarta:** Okay Roberto, so that's very helpful. Do you know, what percentage of your transactions are digital now?

**Roberto Setubal:** The way we measure it, is about 36% of the overall bank. Not only the retail, but also includes all the business that we have, including wholesale and companies and everything.

**Tito Labarta:** Thanks, that's helpful. And if I may just one quick follow-up on the asset quality. So, given what you said, you have some seasonality in the first quarter and maybe only modest improvements throughout the year. So, the reduction in provisions is it safe to assume that provisions will come down faster than NPLs as you may reduce the coverage ratio? Is that kind of the right way to way to think about them?

**Roberto Setubal:** Let me come back a little bit, I think I gave you the wrong number, 36% is the growth year-over-year, I think the level of participation of digital transaction is about 20%, coming from 17% last year.

About provisions, again, the same answer that I gave before. We do additional provisions to Central Bank requirements as we perceive risks on our balance sheet. So, we do not have a commitment with the additional provision that we have, the level of additional provisions that we have today. We have a commitment with good level of provisions according to the type of risk that we perceive in our balance sheet. And remember that in complementary allowances, we have provisions for retail, we have provision for expected loss on retails, so as expected loss in retail falls that number might falls. We have provisions for guarantees, which Central Bank does not require, but will start to require next year. So, we have a, so this will end up being classified as additional because it will turn into a required provision, so it's not an addition, but we already do it, we won't do it again because we have already the right provisions for what we need.

So, basically, we do not have, so a client that we have provisions today, which is above the level of what would be required given the level of past-due that it has when we have more than what Central Bank requires, I mean, as the client moves into a full past-due, we will not do additional provisions than 100%. So, if we have already the provision, I mean, it's both, it will move from a provision that is today classified maybe as excess into required.

So, it's a dynamic process. When we make, as things get worse, we tend to increase provision ahead of the loans become past-due. And this is the cycle. I mean, we have a policy here internally that we tend to anticipate the level of provisions because we have this policy of doing provisions in terms of what we expect. It's not necessarily what Central Bank defines as losses.

In 2018, we will have IFRS 9 coming into place, and IFRS 9, as you know, will require expected provisions to be made. So, we already do this on our additional provision level. We have expected provisions, basically excess provision. So, this concept of what is in excess depends on what's required. So, as requirements change, and it's



changing over time, this number will maybe disappear or be classified in a different way. The same provision will move from access into required.

**Tito Labarta:** All right. Thank you, that's very helpful.

**Operator:** Our next question comes from Olavo Arthuzo, Santander.

**Olavo Arthuzo:** Hi everyone. Good morning, thank you for taking my question. I just would like to understand the bank's view about the delinquency scenario in the industry for this year. Actually, I wanted to know if there is any sector of the economy that can disturb the sleep on the credit department. I mean, by 2016 we were able to see several sectors causing problems on the bank's balance sheet, and this year several sureties remained in the background, and it makes sense to believe that some sectors or some segments already have a rope around their neck and cannot stand another poor year. So, could you share with you some industry or segment of the economy that is on your radar under maximum caution?

**Roberto Setubal:** The provisions that we have in our balance sheet takes into account the level of losses in different industries. We don't have an average number. We have specific provisions for specific clients of specific industry. I mean, it's very easy to understand that companies that have been involving some scandals in Brazil probably have a chance of having higher level of losses, and today we have been putting out more provisions for this kind of problem. So, we look client by client, segment by segment, industry by industry, and we do provisions, I mean, we do not expect surprises. And by the way, we have had no surprises in the last six months. I think all the clients that we have today with problems basically are three big clients. At the end, I'm talking about a very, very big client. Basically, the same that they were six months ago. Some of them have deteriorated since then, some others have been able to sell assets and do important things to reduce their leverage.

So, things are moving and we are looking very closely the quality and the capability of payment of those companies. But basically, the scenario has not changed. I think good news ahead is the falling interest rates, it will be very helpful for those clients who are more leveraged, we can see more interest in Brazil in the last six months and probably in this year in terms of international investments coming in to acquire subsidiaries of many companies are for sale, they are good opportunities. We had a record year in terms of M&A last year and we are heading for this year again another M&A record in terms of transactions that we are doing because many companies are selling assets to deleverage.

So, I think things are moving. I think the important thing is that we are not seeing anything new. So, no surprises in the last six months.

**Olavo Arthuzo:** Okay, it was very helpful, thank you Roberto.

**Operator:** The next question comes from Carlos Gomes, with HSBC NY.



**Carlos Gomes:** Thank you, good morning. Two questions. The first one about the economic assumptions for 2018 and beyond. You mentioned that you expect Selic around 10%. I would like to know what Itaú expects in 2018, where you expect the for it is to be. We see that you are assuming that 3.5 at the end of this year, and internally on credit growth your expectation is for 0% this year, which is low. What type of recovery should we expect in 2018 and 2019?

Second, if I could, for the last 23 years you have been trying to grow or trying to operate in Argentina, and that has proven to be a difficult market, the bank has tried to do with organic, has tried to do acquisitions. How do you see Argentina today? Has it changed? Is it the market that you would like to address?

And finally, I think on behalf of all investor community, I want to thank you for the last 23 years for your results and for the openings to investors and to the earnings. Thank you very much, it was an example for all of us. Thank you.

**Roberto Setubal:** Thank you. Well, in terms of economic scenario for the coming years, I think that economy is heading for a recovery clearly. We are expecting for this year of 2017 a GDP growth of around 1% and improving as the economy goes into the year. It's slower in the first semester and faster in the second semester. And we believe, as reforms are approved in the Congress as the political scenario becomes more clear, if we elect a reasonable president, let's put this way, I think economy could get back with all these reforms to a 3%, 4% growth, maybe in 19-20 I think that's pretty much possible. This is what I would expect.

But there are risks in this trend. First risk is the political scenario with the "Lava Jato" investigations and all this. Second risk is elections for president. So, there are some uncertainties in this trend although in terms of economic policy I believe that we are heading for a much more stable situation, especially because with the approval of the amendment to the Constitution that public spending, federal public spending has to be kept in real terms flat for 10 years, and for more 10 years, and then for more 10 years, this would give very small space for a populist government. I mean, if they have to keep within these limits on the Constitution, I don't see how much damage can be done if we had a populist president. So, I think this is something that it's very important and the risks ahead, although there are always risks, in Latin America are much smaller today than they were maybe one year ago.

In terms of Argentina, I think that the country has recovered a lot, a big improvement. I think prices are too high today in Argentina in general, stock market prices big growth, big recovery, much lower inflation, I think inflation is still a very big problem in Argentina. When we adjust for inflation, and we have this kind of mind here in Brazil, it seems to us that the returns are very, very low in Argentina in general and prices very, very high. So, we are not looking for something in Argentina today.

**Carlos Gomes:** Thank you very much.

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



**Jason Mollin:** It is related to your comments on cost of equity when you spoke about value creation or destruction in the different business segments. You talked about a cost of equity in the 15.5% range. How does the bank estimate this cost of equity? And is there a range you can share with us based on different methodologies and what those methodologies may be?

And my second question is on the sensitivity the bank's earnings to the policy rate. You talked about a Selic falling to 10% perhaps by the end of the year, we see with zero your forecast or guidance of zero to 4% long growth, financial margin with clients will actually, would call to -4% to -0.5%. Can you talk a little bit about how the bank is positioned and if there are strategies to alter the natural sensitive your exposure to rates? Thanks.

**Roberto Setubal:** Well, cost of equity there are many, many methodologies and what we try to do we have four or five of them that we follow, we have four or five methodologies and we make sure that we are close to the average of those methodologies, and this is what we have been doing. Basically, the methodologies have into concentration the level of Brazil's risk, the level of stock market risk, the level of interest rates altogether, I mean, the different methodologies take into account all those factors in different ways. But basically, the traditional way of measuring cost of equity. And we also talk to the market and ask investors and houses of research what numbers they are using to make sure that our number is pretty much in line with what they expected and what they use internally in terms of cost of equity.

Margin, I mean, there are many things, as we have mentioned. We are working pretty much according to our, the numbers that we are giving here is pretty much in line with assumptions that we made in our budget. It has to do with fall in Selic rate, which impacts deposits, it has to do with mix of products, different products growing different ways, it has to do with different segments, a different segment, it has to do with, probably we believe that as the economy improves, as delinquency reduces, probably we will see a reduction in the premium foreign risk in Brazil. A little bit of everything altogether, this is the range that we expect for next year.

**Jason Mollin:** Thank you Roberto. And I would just echo all of the positive comments. It's been a pleasure to work with you, and you're the access to the market that you provided, it really is an exemplary role model for other CEOs that might be it. Thank you.

**Mr. Setubal:** Thank you, Jason.

**Operator:** The next question comes from Jorg Friedemann, with Citibank.

**Jorg Friedemann:** Thank you for taking my question. I have two questions. I would start talking about the Central Bank's panel to discuss spreads that was hosted in Brasília yesterday. So, the panel debated distortions that supposedly prevent a more sustainable and structural drop of spreads, such as cross subsidies with your market



or directed credits. So, how do you see this debate progressing? And in particular, do you see the Brazilian financial system and capital markets, especially after this credit cycle, ready to assume a chunk from subsidized financing from BNDES for long-term investments?

And then I come to my second question, thank you.

**Roberto Setubal:** I think very positive that Central Bank is addressing those distortions. They do not contribute for the development of loan markets in Brazil. I think we have many distortions and it's very important that they are addressed by Central Bank and they try to solve many of those problems. Spreads are very high in Brazil for many reasons and I think this open discussion is very positive and, at the end of the day, I come back to answer your question about "*well, what about the reduction in spreads and margins and some on and so forth?*": first of all, we are a very broad, diversified financial company, so we do not depend on a specific product or a specific segment, we are very, very diversified. So, if we had a broad measure that might affect one business or another, but overall is very positive, it will be very positive for the bank. And I believe that the agenda is very positive overall and as long as we can go ahead with this agenda of reducing distortions, it will be very positive for the system. And then I come back to this clean of business model where I show the ROE in credit business. Look, if we do not create an environment that makes credit business have a return at least on the average or above cost of capital, we won't have credit in Brazil.

So, it's important to date the right volume to develop credit in Brazil, and I believe that it's very clear for authorities, for Central Bank, and everybody agrees that we need more credit, we need better credits in Brazil, and all those changes that we can make in the system that improve has to take into account that the capital allocated that business has to have a return. And, I mean, we have to reduce distortions, avoid distortions, and I think this agenda overall is very positive.

BNDES for many years, especially in the previous government, was trying to push growth in Brazil by offering subsidized loans for investments, and this strategy did not work out. Clearly was not positive for Brazil, it did not really make any contribution to investments in Brazil, numbers clearly show that, and basically what it has made is to put a big confusion in the public numbers, in the fiscal numbers of Brazil that are still being impacted by the subsidies that were given in those loans. So, I think that as long as we bring out, we reduced distortions and we take distortions out, this will be very, very positive overall for the system, for banks, for investment finance, for everybody, and will be very positive for Itaú. I'm sure.

**Jorg Friedemann:** Thank you for the very comprehensive answer Roberto. And my second one is very quick. Could you please provide us with some color about how you believe the line with minorities should evolve this year for us to close our models? Thank you.

**Marcelo Kopel:** Hi, it's Marcelo speaking. Yes, we can take it off line because it's a combination of multiple businesses we have. But we can take it off line with you.



**Jorg Friedemann:** No problem, that's perfect. I really appreciate taking my questions and congratulate Roberto as well. Thank you.

**Roberto Setubal:** Thank you, Jorg.

**Operator:** The next question comes from Eduardo Nishio, with Banco Plural.

**Eduardo Nishio:** Hi good morning, thank you for taking my question, and congratulations for the results. My question is just one regarding regulatory changes. It has been impacting the industry for several months now from tax increases to discussions of reduction of the payment cycle to retailers, lower spreads for credit cards and etc. I just want to know, in your view, what's the position of Itaú regarding all these changes. Some of them are negative, but I guess you have a different view on how the credit cards, for instance, should go going forward. So, could you share with us your thoughts on that? I appreciate it. Thank you.

**Roberto Setubal:** Well, I think that our credit card industry in Brazil, which has developed a lot in Brazil, it is very important for the whole consumption level of Brazil, which represents more than 15% of GDP, our sales done through the credit cards industry. So, it's a very important and very delicate issue, and we have to be very careful in dealing with those things in Brazil. I think that Central Bank is pretty much aware that we have to find out solutions that improve the industry, solutions that make the industry more efficient in general, and this I think is very clear in the agenda of Central Bank. So, it's not an agenda, it's an agenda to making the industry more efficient and more competitive, and we agree on that.

This might affect the different points of the chain value of payments in Brazil. We have, I mean, starting with the issuer, going through the brands, and also the companies, commercial companies that are associated with some brands of credit cards. So, a lot of people, including the acquirers in the value chain of payments in Brazil. And then we have some distortions in the point of the acquiring, the value chain, basically distortions that come from the old times of very high inflations in Brazil, and these distortions are still in place, and the most visible ones is the fact that we have in Brazil you can go in a shopping center and buy a shirt in 10 installments with zero interest and, on the other hand, through the same instrument, which is the credit card, you have a very high interest rate on your revolving credits.

So, a lot of distortions. One is really subsidizing the other. If we take from our numbers, just to give you an example, our average interest rates among all the receivables that we have on the credit card industry is much below the average rate of a personal credit. So, on the average, the income is fine, but there is a lot of fines in terms of, it's not a high level of interest rate compared to other products in Brazil. But the problem is that the distortion comes from the fact that different segments pay very different interest rate levels of interest rate.



So, we have to reduce this level of distortions, and this is what Central Bank is trying to do without reducing the level of credit that is offered by the industry without reducing the usage of credit in Brazil in general. So, it's very delicate because it's a big industry. I think at the end, some points of the value chain might be affected more than others to reduce new distortions. I think these things have to be done over the time, you cannot do it all of a sudden.

We see things, in my view, compensate into other. So, at the end, we believe that the business might be, should be a profitable business with different revenues coming from, in a different way it is today. Today a very, very big chunk comes from the revolving credit, this will reduce. But we believe that over time we'll be able to compensate that through other fees, commissions, so that at the end of the day the total revenue coming from the total industry will stay pretty much in line with the level of profitability that is required given the level of capital that is allocated to that business.

**Eduardo Nishio:** Thank you, very comprehensive answer. So, at the end, if all these changes take place, maybe we have a system very light outside, like in United States, for instance, where volumes are higher and maybe you can make more money on the volume side and fees and other lines of business, right?

**Roberto Setubal:** That's the idea, exactly. We are discussing with Central Bank, we are trying to make contributions to these discussions exactly bringing examples from what is the business in the US, how important it is and how the pricing dynamic is different from Brazil, and I think this will have some influence probably in the way, the international experience will have influence clearly in reducing the distortions that we have today in Brazil. We believe that, I mean, by the way, in our guidance this year we simulated some of these changes already taking place this year, and our guidance pretty much affords those changes in general. At least they are in line with what we expect them to be.

**Eduardo Nishio:** Thank you.

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

**Roberto Setubal:** Okay, thank you very much for the questions, thank you for being with us until this moment of this presentation. We are very positive about the future of Brazil, also positive about the future Brazil, things are improving definitely compared to what they were in the last two years, and the bank is in very good shape, pretty much capitalized and provisioned. So, we see a lot of space to growth in the coming years, so we are very positive about what lies ahead.

Thank you very much and see you around.

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