



**International Conference Call  
Itaú Unibanco  
Third Quarter 2020 Earnings Results  
November 4<sup>th</sup>, 2020**

**Operator:** Good morning ladies and gentlemen, welcome to Itaú Unibanco Holding conference call to discuss 2020 Third Quarter Result.

At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session. Questions can be submitted via telephone, by pressing asterisk 1, or via WhatsApp Mobile app by scanning the QR code provided or WhatsApp desktop app, through the hyperlink provided.

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.itaubr.com.br/investor-relations](http://www.itaubr.com.br/investor-relations) <<http://www.itaubr.com.br/investor-relations>>. A slide presentation is also available on this site.

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

With us today in this conference call in São Paulo are **Mr. Candido Bracher**, President and CEO; **Mr. Alessandro Broedel**, Group Executive Finance Director and **Renato Lulia Jacob**, Group Head of Investors Relations and Market Intelligence.

First, **Mr. Candido Bracher** will comment on 2020 third quarter result. Afterwards, management will be available for a question and answer session.

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

**Mr. Bracher:** Thank you. Good morning everyone and thanks for attending to our 2020 third quarter earnings call. I hope you are all well and safe.

On slide 2, and before we get into our financial performance, I'd like to comment on the macroeconomic scenario we faced this quarter. After a period of strong economic contraction due to the pandemic, we can already see encouraging signs of activity recovery in Brazil, this is reflected both in our GDP expectation for the period as well as in the Itaú economic activity index, which is already close to the pre-crisis levels.

However, this recovery was made possible largely due to the stimuli provided by the government, which, in turn, increased public spending and deteriorated Brazil's fiscal situation, as you can see in the debt to GDP graph.

In the end, this recovery scenario brought important opportunities for the bank. Over the past quarter, the interest rate in Brazil reached its lowest levels in our history, which continues to drive our clients to seek more profitable investment opportunities.



In this context, activity in the capital market continued to grow due to the increased demand from individual investors and creating the condition for us to advise and structured 28 new ECM transactions this year.

This low interest environment in conjunction with the changes brought by the pandemic on the way that population uses public transportation has led to a healthy demand for car financing products. We also launched important new real estate financing options for our clients with a wider range of products in home equity, as well as the launch of mortgage with interest rates paid from savings deposits.

This was only possible due to our funding structure which enabled us to deploy this quarter which currently has the lowest interest rate in the market without increasing our ALM risk.

Last, but not least, we disbursed to our SMEs clients just over R\$16 billion in the period with loan facilities sponsored and largely guaranteed by the government.

Slide four. So, in view of the scenario I just described, here we show that the bank ended the third quarter of 2020 with a recurring net income of R\$5 billion, which translated into an ROE of 15.7%. This 19.6% net income growth was led by an 18.7% reduction in the cost of credit and important recovery of our fees revenues. However, these effects were partially offset by the negative impact of the change in credit mix, on our net interest income, and seasonally higher nonoperating expenses.

Finally, the loan portfolio grew by 4.4% ending the period with a balance of R\$847 billion, which we will discuss in further details in the next slide.

Moving to slide five, we show the evolution of the credit portfolio. I'd like to highlight three things in this page: first is the SMEs' loan book growth. The 14% in this portfolio was due to our participation in loan facilities sponsored and largely guaranteed by the government in this segment. Our customers use these lines not only so that they could better navigate the effects of the current crisis, but also to replace more expensive credit lines; secondly, we observed an important recovery in the individuals loan portfolio driven by credit cards, mortgage and vehicle financing. It is important to highlight that the growth in credit cards occurred in a non-interest-bearing portfolio while the revolving credit balance still showed an important contraction quarter on quarter; lastly, personal loans remained relatively stable, but there was an additional relevant change in the mix of products, as you can see in the chart on the bottom right column of the slide.

As we mentioned on the previous quarter earnings call, this movement reflects not only a change in our customers' behavior and a drop in consumption levels, but also (and very importantly) our active risk management approach as we gear clients towards more sustainable credit products. It is important to mention that the bulk of this change in mix happened in the previous quarter, therefore, you can see that the impact was higher on the average outstanding.

Naturally, this portfolio dynamics continue to negatively impact the financial margin as we will soon seen in the next slide, but we do believe this is a good trade-off: temporarily it gives us part of the margin in order to protect the principal.



Slide six. On slide six you see that the change in the credit mix, as we explained in the previous slide, generated two negative impacts: R\$0.4 billion related to the change in the mix on individuals' and SMEs' portfolio, as mentioned previously, and an additional R\$0.4 billion due to the change in mix between segments, more wholesale, less retail; and finally, the lower SELIC rate had a negative impact of R\$0.2 billion on the remuneration of the working capital.

These effects were partially offset by the higher average credit volume and also by the higher number of calendar days.

Slide seven we see the reprofiled loans. Before we move into cost of credit, I would like to update you on how the reprofiled loans behaved this quarter. On slide seven we show that this portfolio finished September with R\$53.5 billion, marginally higher than the second quarter when we had R\$52 billion. The acceleration of the growth of this portfolio is directly linked to the better macroeconomic environment, which eventually led to lower demand for the [unintelligible].

By the end of the third quarter, 75% of the grace periods already expired. Out of that, 6 percentual points were delinquent between 15 and 90 days, and 0.6 percentual points were delinquent for more than 90 days. This performance is better than originally forecasted when we put this program in place.

On slide eight we present the evolution of the expected loss provision model and cost of credit. Before getting to the actual numbers, I'd like to once again explain the way we demonstrate the provisions on this chart. The provisions for overdue operations strictly follow the rules defined by the regulator where a minimum level of provisioning is required when the loan is overdue. The next layer is what we call aggravated ratings. These are related to the amount we have provisioned for overdue or renegotiated credits above the minimum defined by the regulator.

Finally, we have the potential losses which contains the provisions we've made for credits that are not delinquent, nor renegotiated. Even though we are seeing a good delinquency behavior from the clients that were granted payments 40 days of their loans, we believe that we are still sailing in uncharted waters where due to the payment 40 days I just mentioned are due to the fact that the recovery of the economy observed in the third quarter was largely supported by emergency government aid, which is expected to be reduced dramatically next year.

Given these facts, we decided to maintain a prudent management of our provisions, therefore, in this quarter, we continue to build provisions for potential losses, which increased by approximately 120% over the first 12 months, and together with the drop in the NPL balance led to the highest coverage levels we've ever had.

The management of our provisions reinforces our commitment to the sustainability of our medium and long-term results.

Lastly, although the cost of credit is still above the normal levels, it continues to show a positive trend, contracting further 18.7% in the quarter the second time in a row. This



reflects all the actions we've undertaken since the beginning of this crisis and the improvement in the macroeconomic and financial conditions, which fit into our expected losses model.

Now on slide nine, we show that due to the intensity of the credit negotiations and the proactive offering of more flexible repayment terms of the last few quarters, the NPL 90 days ratio of the individuals loans portfolio continue to contract. We believe these numbers do not properly reflect the full extent of the crisis yet.

You will note, though, as expected, that there was an increase of 60 bps in the short-term delinquency ratio of the individuals' portfolio as customers started to repay their loans.

Slide 10 now, financial margin with the market. We can see that this financial margin continues to perform in line with historical levels. This performance was mainly due to higher gains in the Brazilian [inaudible - background noise].

In slide 11 we saw a 12% increase in service revenues this period, a far contrast to the performance seen last quarter as all the fees and services revenues performed better than the previous quarter. The better economic activity led to more volumes and naturally generated positive impacts in our credit and debit cards fees, both in the issuing activity, as well as in the acquiring operation.

The higher transaction volumes also benefited the credit operation fees and the collection services. The low interest rate environment coupled with the economy recovery seen in the quarter led to good opportunities for investment banking activities. We finished the quarter with 59.8% higher advisory and brokerage fees.

Lastly, I'd like to highlight that we ended September with R\$1.9 trillion in assets under custody, a 15.7% growth over the last 12 months. This performance was achieved not only through transitional operations, but as well through the investments open platform, which finished the quarter just shy of R\$290 billion under custody.

Slide 12, ESG. Last quarter I mentioned that we would continue to highlight how ESG aspects are integrated into our core business. This quarter we are going to share more light over some of our rate initiatives in our asset management and investment banking operation.

Itaú Asset Management has a long tradition in integrating ESG metrics into its operations. It was a pioneer in adhering to the principles for responsible investments and since 2010 it has incorporated ESG metrics to evaluate the companies where we invest our clients' resources.

Today, more than 95% of our assets under management are covered by our ESG foundation model. Moreover, we promote the adoption of the best the sustainability practices through direct engagement with investees and by exercising our rights to vote in the shareholders' meetings.



Additionally, we have several investment products dedicated to these themes. One of these products is *Momento ESG* (or ESG Moment, in a direct translation) with an active manage fund launched September this year which selects between 15 and 25 stocks with the greatest potential for long-term results.

Lastly, in DCM our investment banking operation (Itaú BBA) structured and advised 75% of the ESG issuance of Brazilian companies in international markets.

Slide 13 now, noninterest expenses. Here we discuss the noninterest expenses which are another important element of our performance. When we compare this quarter with the same period of the previous year, we can observe a decrease of 0.9% in our consolidated expenses with a 4.2% decrease in Brazil. If we adjust it for inflation, expenses in Brazil fell in real terms by an impressive 7.4% in the period, as can be seen on the chart at the bottom of this slide.

One of the reasons we became more efficient is due to our consistent investment in technology. As you can see on the left side of the slide, this is an area where we continue to invest heavily increasing our capacity in developing hours by almost 40% this year.

Moving on to slide 14 we present our clients' digitalization trends. As you know, the crisis and naturally led and forced many clients to migrate their banking interactions into our digital channels and in the upper left corner chart we show that the number of customers that formally use our digital channels continues to grow. In this scenario, we were pleased to see that the availability of our systems and services reached the highest historical levels despite the greater demand and stress of our digital infrastructure.

We strongly believe that the experience that our customers had on our digital channels was very positive, and this becomes evident when we observe the same or even higher level of utilization of our digital channels in this quarter despite the end of almost all of the quarantine and social distancing measures that were in place throughout the second quarter in the country.

Additionally, we noticed that the flow of new accounts opened online showed a small decrease in this quarter. However, the volume remains practically double what was observed last year and showcases a positive ongoing trend of new clients becoming more digital in the way they interact with the bank.

Slide 15 we show that our Tier I Regulatory Capital improved by 30 basis points this quarter despite the still volatile scenario and ended the period with 12.4% capital ratio.

On slide 16, as we are already in November, it makes no sense to disclose a guidance for the year 2020. Over the next months, we will support Milton in defining the guidance for 2021 that will be given on our fourth quarter 2020 earnings conference call.

Nevertheless, the first [unintelligible] described herein should be the basis of this guidance, namely keeping appropriate levels of capital and liquidity, expanding the loan portfolio, an additional reduction in the average rate of the financial margin with clients compensated by



a growth in service and insurance revenues, we expect a progressive reduction in the cost of credit and we will keep an emphasis in efficiency gains.

Finally, on slide 17 we will comment on the recent material fact about the stake in XP. As you well know, the original acquisition plan had a series of call and put options whereby we could eventually end up controlling the company. However, this design was not approved by the Brazilian Central Bank and we ended up with a minority noncontrolling stake. As a result, this became a financial investment rather than a strategic asset for us.

Therefore, after a careful and thorough analysis, we concluded that it would be in the best interest of our shareholders to spinoff such investment from Itaú and transfer it to a new company owned by them. By doing this, we would be able to achieve two equally important objectives: unlock value as this investment is not fully priced in our valuation; and give our shareholders the ability to decide what they want to do with these assets.

As a result, we are studying the possibility to spinoff 41.05% of XP's capital held by the bank into a new company, or Newco, a company that would be listed in the stock exchange. After the spinoff, Itaú Unibanco's shareholders would receive an equity interest in Newco whose only assets would be the shares represented by XP's capital.

The study also looks into the possibility of selling the remainder of the shares issued by XP held by Itaú Unibanco corresponding to 5% of its share capital in order to monetize part of this business line in our balance sheet and boost our capital ratios.

With this, I conclude the presentation and we may start the Q&A session.

### **Question-and-Answer Session**

**Operator:** Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question, please press start then one on your touchtone phone. The questions will be limited to two per participant.

If at any time you would like to remove yourself from the questioning queue, please press start then two.

Our first question today will come from Jorge Kuri, with Morgan Stanley.

**Mr. Kuri:** Hi, good morning everyone. Congrats in the numbers and the XP announcement. Two questions if I may, please. The first one is: what do you think would be your loss models for NPL in 2021? What other provisions that you've made are assuming that NPLs will go from current [inaudible - audio breakage]? So, I believe to what exactly makes you... Where do you think that peak of NPLs is going to be that I think will allow us to understand what level of cushion you have in your balance?

And my second question is a bit more longer-term. Hopefully, there is a new reality of interest rates in Brazil and we see rates stay at low single digits for long. Where do you think ROE can go back to in that scenario? And again, I'm not asking to [unintelligible] a specific guidance, but overall how much of historical ROE and the roughly 20% were driven



by that level of a rate and can that be offset with expenses or efficiency, you know, more profitable balance sheet and can you get to there again? Thank you.

**Mr. Bracher:** Good morning, Jorge, thank you for the questions. Concerning our focus for credit quality in 2021, I cannot tell you what level of NPL we expect for 2021, we don't to disclose this information. What I can tell you is that our models for 2021 they are based on very conservative economic projections for economic growth in the whole macroeconomic scenario. That's the way we usually do it and this is why our provisions have consistently been enough for the level of delinquency we have faced over the past many years.

As we've shown in slide eight, I mean, our potential loss provisions have increased by 120% in the last 12 months, so, I mean, we are very comfortable with this level of provisioning for next year even given the conservative scenario which we embed in our projections.

As to ROE, this is a very good question, I mean, we have always thought of ROEs as compared to the cost of capital, and this is why we even show ROEs and cost of capital in the same chart. And of course, I mean, there is a sort of [unintelligible] here that interest rates went down so much, not only in Brazil but in the whole world, and cost of capital did not. I mean, cost of capital remained in the low teens even with interest rates dropping to 2% in Brazil.

With this element, it is not evident, but that will keep the same... we will be able to keep the same difference between ROE and cost of capital as before. Having said that, I think we've seen in this quarter 15.7% ROE. I think it's a reasonable expectation that we may see higher figures next year for ROE.

**Mr. Kuri:** Right, thanks, Candido.

**Mr. Bracher:** Thank you, Jorge.

**Operator:** Our next question comes from Thiago Batista, with Banco UBS.

**Mr. Batista:** Yeah., Hi guys, thanks for the opportunity to make questions. I have one question, and by the way, it's a follow-up of the Portuguese call about the Newco.

Will the Newco be listed in Novo Mercado or is expected to have voting and nonvoting shares? This is the first one.

And the second if you have the timeline of this deal. I know that you mentioned that this will not happen in 2020, but is it fair to say that the idea is to have this spinoff in the first half next, second half? So, if you can give a little bit more clarity on the timeline of this deal. And thanks a lot for the answers.

**Mr. Bracher:** Thank you, Thiago. As to your first question, I apologize but we have not decided yet, I mean, if it's going to be Novo Mercado or not. We will decide soon.



As to when to expect the translation, we have said here, I mean, not before the year-end, but I would add to this not too far away from year-end either. So, I think it will be around that date.

**Mr. Batista:** But is it possible to assume that the new company will have voting and nonvoting shares? Because you mentioned that the new company will follow the controlling structure of Itaú Unibanco. So, implicitly, this means the new company will have voting and nonvoting shares. Is this correct?

**Mr. Bracher:** We are still deciding upon this, Thiago. I mean, it involves Itaú Unibanco, it evolves the shareholding agreement with XP and so on, so we will still decide on the format these shares will have.

**Mr. Batista:** Okay, very clear, Candido. Thanks for the help.

**Mr. Bracher:** Thank you.

**Operator:** Our next question comes from Jeffrey Elliott, with Autonomous.

**Mr. Elliott:** Hello, good morning. Thank you for taking the question. Basically [unintelligible] a little bit away from the spinoff. The Pix payment system is going live very soon, I think it's starting to ramp-up about now. Could you talk about your performance so far with that in terms of registering keys? There was some data out a couple of weeks ago that kind of showed Itaú lagging behind some of the new entrants there, and then your expectations for what that is going to mean for you and for the system going forward.

**Mr. Bracher:** Thank you for the question, Jeffrey. You are right, as a matter of fact, we didn't perform well in the first days of registration of clients, we had some technological problems in the first of three days, which have hampered our ability to on board clients.

Having said that, we think that Pix is definitely a long-term factor, it will help us serve our clients much better and we have a good basis of clients to serve this way, also combined with other products of the bank, like ITI and so on, we expect this number to increase a lot and we are paying a lot of attention on the quality of the service which we are going to deliver for these lines.

For companies, for instance, we are increasing very much the quantity of companies that we on board for Pix and we are prepared to give them already an excellent service quality.

So here we consider Pix a very important in our competitiveness going forward and we do not think that this initial problem we had will hamper our ability to significantly grow our platform there and improve the quality of our services to our clients.

**Mr. Elliott:** Got it. And where do you think you're going to get to in terms of those key registrations? Do you think you can catch up with the digital banks that kind of got out there ahead of you or do you think that they are just going to have bigger numbers all the way through now?



**Mr. Bracher:** We don't think so much in these terms as... I mean, I think it will have the client registered does not bring you the clients [unintelligible] necessarily more than it brings you any income. This has to come jointly with quality service for the client, and this is what we are preparing to [unintelligible - audio breakage].

We don't have specific targets in terms of number of clients, but we have in terms of quality of clients that we are going to turn into our platform.

Having said that, we have 55 million clients in the bank between current account and credit card holders, and we expect to serve a large percentage of this base and also to add to this base all the individuals and companies which are not our clients today.

**Mr. Elliott:** Thank you.

**Mr. Bracher:** You're welcome.

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

**Mr. Gomez:** Hello, good morning and again congratulations on the XP transaction in a very successful term. Candido, thank you very much for your service at Itaú.

My questions are regarding transactions. First, I wanted to confirm that the value at which you keep XP in your financial statements, you mentioned here that the book value is now 9.6 billion. Is that how you have it valid in your studies at the cost rate that we should consider for a possible capital gain?

Second, I would like to know if the date and the pricing of the original stake that you will purchase is unchanged. And finally, would you be paying the 45% tax rate on a possible gain or does it happen through a nonbanking structure and you obtain a [unintelligible]? Thank you very much.

**Mr. Bracher:** Thank you, Carlos. I got your first and your last question, I didn't get the second one, but I will answer the first and third and I will ask you to please repeat your second.

First, yes, I confirm the book value of the XP participation is R\$9.6 billion. And as to, I mean, when we sell our 5% participation, it's held through a non-financial company, so the tax rate is 34%.

And the second question, I didn't get.

**Mr. Gomez:** Yes, I wanted to confirm the terms of the additional acquisition. If we understand correctly from your file it is 11.53% of outstanding shares of XP, it takes place in 2022 and it is 19 times earnings. Is that correct?

**Mr. Bracher:** Yes, exactly. So, we have the right to by 11.5% of XP capital now, it used to be 12.5 in the beginning, but since the capital increased, now it's 11.5, it is in 2022 and it is at a multiple of 19 times earnings.



**Mr. Gomez:** And is it 2021 or 22?

**Mr. Bracher:** 21. 21 is the [unintelligible - voice over].

**Mr. Gomez:** 21?

**Mr. Bracher:** Yes.

**Mr. Gomez:** Okay, thank you. Thank you very much.

**Mr. Bracher:** Thank you, Carlos.

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

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

**Mr. Pierry:** Hello everybody. Good morning. Sorry, I just joined the call, I had a long time here, so Candido I apologize if I'm repeating any of the questions, but first of all, you are leading the bank for the past like three and a half years, almost four years. If you can leave like a message of what you think your legacy is going to be at Itaú, what do you think were the main accomplishments that you were able to make and what do you think are the main challenges that the bank is facing?

Also, second question is related more to your results. I think there were a lot of questions in the Portuguese call talking about the XP transaction and almost no questions about the performance of the bank in the quarter. We did see provisions coming down, we did see your coverage ratio going up, it seems like your renegotiated portfolio is performing much better than we anticipated.

Can you talk about what explains this better performance of your loan portfolio and how you see this behaving next year? Because it seems to us like there is a lot of room for provisions to start to normalize. If you can give us any idea where you think provisions could be next year if the economy continues to perform the way it is? Thank you.

**Mr. Bracher:** Hi, Mario. Well, despite the fact that you have not been present in the call, I don't think your questions repeat any other question which has already been made, so thank you for your questions.

So, your first question about my legacy for the bank after this three and a half/almost four years as a CEO, honestly, I don't like to talk in terms of legacy, I think it's not for the one who has made things to talk about his legacy, I mean, the others should recognize if there is a legacy or not.

What I can talk about is where did I focus my energy during this time, and my energy was focused first and foremost in enhancing the importance of customer experience for the bank, of customer satisfaction. So this was the first, second and third priority and it was



stressed in every communication, in every measure taken, I mean, in having implemented the net promoter score methodology throughout the bank, not simply using the measure, but with calls back to the clients, with liturgy having been created in the whole institution with groups discussing clients satisfaction and so on, and this was our main focus.

In order to reach this, there was... I mean, digital transformation was elected as the main tool, so a lot of effort was placed on this, and I think we, after a good start, we have already two years in this effort and we are quite satisfied with the evolution we are seeing.

And another important element of performance and of customer satisfaction is efficiency because efficiency allows you to better price your products, and so, I placed a lot of attention on gaining efficiency, reducing costs, and this is also a place where I think we are performing well.

And then there is 2020. And in 2020, a lot of changed with the crisis and here the important thing, where I placed most of my energy and efforts was to show a constructive phase of the bank in the light of a major crisis. And so, here we have this R\$1 billion donation in the structuring of *Todos Pela Saúde*, which was an effort designed to support the country in this difficult period.

We had attention towards all of our coworkers realizing that they were fragile at the onset of the crisis in order to reassure them so that they could render better services to our clients, and finally there is this worry with climate change and the risk in Amazon where we jointly with our competitors Bradesco and Santander are launching this effort, which is a long-term effort in order to support the environment.

So here it was about showing how good a corporate [unintelligible] and a bank can be that we've had some success in showing this and enhancing the bank's image. That's for the first question you made.

About the results for next year, your question was more on the provisions, right? Could you repeat your second question, Mario, please?

**Mr. Pierry:** Yes, my second question is more related to how you see your coverage ratio and why do you think your portfolio is performing better than you expected in the beginning of the year and how much do you think provisions can come down in 2021?

**Mr. Bracher:** Well, it really depends on how the economy performs, and we are expecting 2 to 3% GDP growth next year, but there are other factors around how the relation net debt to GDP behaves, how is the fiscal performance of the government and then how will this impacts exchange rate, how will this impact inflation and how will inflation, in its turn, impact interest rates and then will close the cycle because interest rates have an influence on the capital GDP relation and so on and so forth. So, there are dangers ahead and the government will have to be efficient in dealing with these dangers.

I don't know how much they affect growth in 2021 itself, but they really affect the long-term perspectives. But I have mentioned in one previous question, I mean, our provisions are made based on conservative assumptions as to the economic performance of the country.



So, if we have normal or good evolution of the economy, I trust that our provisions will prove to be excessive because this is not a scenario which we have taken into account in our models when making the provisions.

But this is something we will only know later in 2021 because, as I have said in the presentation, to a certain extent, we feel that we are still on uncharted waters next year as we do not know how the economy will react to the extraction of the fiscal stimuli that was very expensive this year.

**Mr. Pierry:** Okay, Candido, thank you very much and I really enjoyed working with you last few years and wish you much success in your future roles. Thank you very much.

**Mr. Bracher:** Thank you very much, Mario.

**Operator:** Our next question comes from Tito Labarta, with Goldman Sachs.

**Mr. Labarta:** Hi, good morning, Candido. Thank you so much for the call. A couple of questions also. First on your margin, we've seen quite a bit of pressure over the last couple of quarters and, as you mentioned, partially due to the segment mix and the retail mix and lower rates. But given sort of the government support loans, particularly in SMEs, how much of this margin do you think you can get back pretty quickly as those loans sort of go away? And how much of this pressure on margins do you think is going structural and will continue? So, I guess overall, how should we think about your marginal [unintelligible] to come from here?

And then my second question on XP, just thinking a little bit more in terms of the rationale, I mean, I think economically it makes a lot of sense selling the stake and given that you are benefiting from what you are doing, but from a strategic perspective, you know, given that you are benefiting from what XP is doing, but at the same time they are competing against you.

From a long-term perspective and I think with the recent announcement also could make it easier for you to ultimately sell your stake, do you think strategically in the long-term it will make sense to continue to have this stake in XP? Should you be more competitive against them? Just to think a bit about the competitive dynamics going on, particularly given your economic stake in them. Thank you.

**Mr. Bracher:** Thank you very much for the questions, Tito. First on our margins, I think you are right, the reduction in the margins have a precise calculation, but I would make a wild guess here: the importance of this is due to the pandemic and how we reacted to it, and we reacted to it by offering the government-sponsored lines and also by offering better terms in our own lines offering all this flexibilization of lines as we call it here.

A part of it will come back sooner as the economy evolves, as the economy improves, but part of it will take longer because these government lines they are long-term lines, most of them. So, they will not mature next year alone, which is negative for the margin but is positive for credit quality going forward.



So, I think we still may see because of the effect of the average amount, I mean, we still may see some decrease in our margin for one or two quarters, but then I expect it to stabilize and begin... especially in absolute terms as we also expect the portfolio to grow.

Now your question to XP, it's a very interesting question. I may say that the whole XP transaction was made while I was CEO, so we acquired this stake in May 17 and I have never gone softly on our own investment area and investments and efforts and so on because we had the participation in XP.

It was very clear from the moment that the Central Bank said that you cannot have any kind of [inaudible - background noise] that that was a financial participation, a good financial participation, I mean, we are happy with the management, happy to have a stake in the growth of an activity with which we could not compete exactly in the same terms as they did it, but it did not make us shy of competing freely.

Having said that, it's of course our task of competing in this field is made easier and more comfortable by not having a direct participation in the company. So, although we have not shown off doing this, I mean, we will feel more comfortable for less risk of having any conflict of interest whatsoever.

**Mr. Labarta:** Great, thank you, Candido. That's helpful. So just a follow-up on that last comment, I don't want to reach too much into it, but does that mean ultimately it would make sense to divest the entire state or, I mean, I understand you may not give a comment in all of that, but just to get a sense, I mean, you said you think it will be easier to compete without any direct participation, and I guess this vehicle will make it easier to sort of divest of it, but is that sort of the trend that you are going to sell 5% and maybe continue to dilute over time? Is that the way to think about it?

**Mr. Bracher:** Well, Tito, of what falls under the responsibility of Itaú Unibanco, we are divesting everything. I mean, we are spinning off 41.05%, which for Itaú Unibanco is that we are going through a divestment because the bank is no longer an investor in the company, and we will sell, in the appropriate moment, the other 5%. So, we are divesting everything of the company.

Of course, we still have the commitment to buy 11.5% in 2022, which we will of course honor, and what we will do with that, this will be the new administration's decision to take.

**Mr. Labarta:** Perfect, thank you, Candido, and best of luck in the future.

**Mr. Bracher:** Thank you very much, Tito.

**Operator:** Our next question comes from Natalia Corfield, with JP Morgan.

**Ms. Corfield:** Thank you very much for taking my question. With regards to your capitalization and the spinoff, do you have in the spinoff and the potential sale of the 5% stake an idea of how much those events would impact your core equity?



**Mr. Bracher:** Yeah, the spinoff impacts only indirectly our capitalization level. I don't have the number here, Natalia, for the spinoff, but it's marginal, and it impacts in the sense that today a part of this investment we have to deduct from our Tier I capital and it will no longer be necessary.

The sale of the 5% stake of XP, depending of course on the prices it's made, will improve our Tier I equity in 40 to 50 bps.

**Ms. Corfield:** Okay. That's clear, thank you so much.

**Mr. Bracher:** Thank you, Natalia.

**Operator:** Our next question comes from Henrique Navarro, with Santander.

**Mr. Navarro:** Hi Candido, good morning. Thank you for taking my question. The Covid-19 has anticipated or accelerated several digital initiatives, so maybe now we are expecting a lower number of branches and personnel for the next years than you were expecting before. So, I would like you to comment on the potential improvement in efficiency, specifically on the number of branches and personnel for the next years.

I know it's not going to be in your hands command, but, I mean, the trend already started. So, anything you could comment on this will be very welcome. Thank you.

**Mr. Bracher:** Thank you, Henrique. So, I think that the solution of the Covid crisis, if we can call it so, with a vaccine led to assume that things come back to normal in the second half of next year, so I don't think it has a great impact in our efficiency efforts.

I think what will have an impact (as we're already having) is the way we will have now our people working in the bank and home office will be much more widely used in the bank, and this may have an impact in closing the branches, which we have not fully measured yet. I mean, we have to see the behavior, the clients' behavior once we are back in normal life.

But most of our efficiency gains are projected to be gained upon the better use of technology, and we are projecting this and I think Milton is confident that we will keep on improving the efficiency level of the bank and we will keep on having significant efficiency gains in the future.

**Mr. Navarro:** Okay, thank you, and thank you all for all those good years treating the analysts and the market in a very straightforward and nice away. Thank you.

**Mr. Bracher:** Thank you very much, Henrique, I appreciate.

**Operator:** Our next question is a follow-up from Jeffrey Elliott, with Autonomous.

**Mr. Elliott:** Hi, hi again. Thanks very much for taking the additional question. The spinoff is that kind of pending approval from any regulators, is kind of pending any sort of approval from XP? Do you need any agreement from an outside policy to get that done or is it entirely in your hands?



**Mr. Bracher:** Hi Jeffrey. No, it's only pending approval from our Board of Directors.

**Mr. Elliott:** Got it, thanks very much.

**Mr. Bracher:** Thank you.

**Operator:** And our next question is a follow-up from Carlos Gomez, with HSBC.

**Mr. Gomez:** Yes, and thank you for taking my follow-up question as well. When you look back over the last four years, Itaú has been a great dividend payer, [unintelligible] capital very, very well. [Unintelligible] of how the company has been able to grow its profits and when we compare you to your main competitor it is clear that your rate of growth has been lower to the point that here we are in this quarter in which have had a calculated [unintelligible] profit in both thanks.

How do you see this going forward having the investments that you have made going to end up resulting in higher growth in the future or do you expect more to accumulate and distribute capital? How do you see the capacity for Itaú to grow in line with the other large banks in the market? Thank you.

**Mr. Bracher:** Thank you, Carlos, for the follow-up question. As you know, we have always been very focused on risk-adjusted return on own capital, and our investments have always had this in mind.

I have said before in a question that I think that the challenges, the main challenges ahead for the new administration are digital transformation and growth. Growth is an objective which will be much enhanced in the new administration.

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

**Mr. Bracher:** Well, I just wanted to thank you all for the participation, for the interest and very good questions. I mean, it has been an honor and a pleasure to talk with you during all this time. Thank you very much.

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