



Itaú Unibanco
International Conference Call
Fourth Quarter 2019 Earnings Results - February 11th, 2020

Operator: Good morning ladies and gentlemen, welcome to Itaú Unibanco Holding conference call to discuss 2019 Fourth Quarter Results.

At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session and instructions will be given at that time. If you should require assistance during the call, please press the star key followed by zero. As a reminder, this conference is being recorded and broadcasted live on the investor relations website at: www.itaú.com.br/investor-relations. A slide presentation is also available on the 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. Milton Maluhy Filho**, Executive Vice-President, CFO and CRO, and **Mr. Alessandro Broedel**, Group Executive Finance Director and Head of Investor Relations.

First, **Mr. Candido Bracher** will comment on 2019 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. Candido Bracher**.

Candido Bracher: Good morning everyone and welcome to Itaú Unibanco's fourth quarter and 2019 earnings conference call.

As you see, this year we broke down this presentation in four parts: strategic initiatives; highlights of the fourth quarter; 2019 results; and our forecast for 2020.

Now moving straight to slide 3, we present some key performance indicators from our four strategic initiatives. As you may recall, we launched this agenda two years ago with customer centricity as the main piece supported by three fundamental levers: digital transformation; people; and efficiency.

We understand that these initiatives are the roadmap of our transformation journey. Although they are long-term focused, we are already experiencing impressive results. Net Promoter Score, or NPS, improved in a meaningful way across our operation, and this reflects directly into our client acquisition and retention as we are opening more bank accounts while reducing bank accounts closures.



On the digital transformation front, we continue to invest heavily in IT, and we more than doubled our capacity in four years. As a result, we see important productivity gains since we doubled the project delivered with an increase of 24% in the net present value. Also of note, the delivery time was reduced by 27%. As for efficiency, in 2019 we had the best annual cost to income improvement in the last four years.

Finally, our employee satisfaction levels continue improving from an already high standard as we evolve in implementing new ways of working in the bank, giving our teams more flexibility and agility in the way they work. These results are just the tip of the iceberg and we believe we are just in the beginning of this journey. We believe these results speak for themselves.

It is not by accident that we placed this slide also within our strategic initiative section. ESG is absolutely core to what we do. We believe that having good governance, taking care of the environment and being positively engaged with the society in general and the communities we are part of is essential. It is good business.

We have incorporated eight specific and measurable goals into our core businesses, out of which we show four of them here today. Let me highlight: we are already offsetting 100% of our direct and indirect carbon emissions since 2017. But that is not enough, and that's why we are moving towards creating positive impacts, for instance, earmarking substantial financial resources to finance positive impact factors and clean energy.

On slide 6, we now move into the second part of the presentation with the fourth quarter highlights. Our recurring net income grew 1.9% in relation to the previous quarter reaching R\$7.3 billion, and with that we managed to achieve 23.7% ROE, the highest we had in the past 17 quarters. In Brazil, net income increased by 3.3%, which led to a ROE of 25.1% in the fourth quarter. The results from fees and insurance were particularly strong this quarter, growing 11.3%. This performance was mainly driven by our asset management and investment banking units.

Our financial margin with clients, or NII, continued to show a positive trend, growing 2.9%. This is the result of our robust credit portfolio growth in Brazil of 4.2%, as well as of the positive change in credit mix.

Whereas the NPL in Brazil remains stable, the consolidated figure increased by 10 basis points as a result of a couple of corporate cases in our LATAM portfolio. This impact can also be seen in the cost of credit for this specific portfolio.

Lastly, but by no means less relevant, we managed to keep our non-interest expenses at base, posting a growth of only 1.7%, despite the seasonally higher administrative expenses and the full impact of the annual wage agreement of 4.3% with the union.

And now, talking about 2019 full year results. On slide 8, we share some of the main highlights of 2019. We reached a very solid consolidated ROE of 22.7 on the back of a net income growth of 10% year on



year. In Brazil, we posted a return of 24.9% with net income growing 10.6%. This performance was driven by a robust credit expansion of 10.9% with positive impacts on our net interest income, and our fee income also grew substantially above inflation.

On the same token, our cost control initiative and constant investments in modernizing our infrastructure generated our biggest efficiency gain over the last four years. Noninterest expenses contracted 1.7% year on year on real terms.

Page 9, now. These positive results were attained despite the fact that the economy performed differently from what we expected at the beginning of the year, with diverse impacts on our business. GDP's headline growth came below expectations, but with a healthier breakdown. Private investment and consumption grew 3.6% and 2.1% in the year, respectively, therefore, partially offsetting the contraction on the public side.

The low inflation and overall macroeconomic conditions allowed for further cuts in the base interest rates, which reached its lowest level ever. This translates in a positive dynamic to our credit portfolio, both in terms of portfolio growth and NPLs, even if, at the same time, it had a negative impact on the NII.

Moving to slide 10, you will see we posted our highest value creation ever, R\$12.8 billion, which represents a 38.3% growth over 2018. This reflects 2019's strong financial performance, when operating revenues was 7.1% and expenses only grew 2.5%, as well as an efficient capital management and lower cost of capital.

Now on slide 11, we show that the Brazilian portfolio expended on every single line of business: 13.5% in individuals; 26.6% on SMEs; and 10.1% on corporate. Credit origination continues stronger in Brazil and presents good prospects for the future. In Latin America, growth was more subdued as a result of Forex variation in the period, especially in our operations in Chile and Colombia.

Now on slide 12, we will discuss net interest margin, or NIM, and the NII. Our consolidated risk adjusted NIM decreased 70 basis points in the quarter, mainly due to a couple of specific cases in the LATAM portfolio that required greater provisions. Excluding this effect, risk adjusted NIM decreased 30 basis points in the quarter. In Brazil, the gross NIM contracted 30 basis points due to seasonal effects in our credit card portfolio, which dilute NIM, as it was the case in the same periods in previous years.

Despite an impact of low on our working capital, as well as lower credit spreads, the NII grew 8.6% this year. This performance was achieved by the combination of the credit portfolio growth with the positive change in the product mix.

On slide 13 we show that our financial margin with the market remained practically stable when compared to 2018. This was mainly due to higher trading gains and a conservative asset and liability management, which offset margins pressure from the lower interest rate.



Now, on the next three slides, we will discuss the cost of credit and credit quality. Talking on slide 14, our short-term delinquency remained at the lowest level since the merger between Itaú and Unibanco for the consolidated portfolio. Our consolidated NPL 90-day ratio remained relatively stable throughout a year with different behaviors on different segments. The change in credit mix for individuals led to an expected gradual increase in its NPL ratio. On the SMEs portfolio, we continue to see improvements in the credit quality, and we are at the lowest delinquency level ever in this portfolio. In the large corporate book, this more volatile behavior was expected, as I discussed in previous earnings calls. Therefore, although we saw an important improvement here, we could still experience some level of volatility, but always in our expectations.

Finally, our Latin American credit portfolio had a 50-basis point increase in NPL due to a couple of corporate cases in our LATAM portfolio. NPL coverage ratio increased 21 percentage points in the quarter mainly as a result of the higher provision charges in the fourth quarter related to changes in our expected loss model. Lastly, the cost of credit increased 29.1% in 2019, which we will further detail on the next slide.

On slide 15, we break down the growth of cost of credit. Half of it was a direct effect of the credit portfolio expansion in the period, the rest can be linked to higher provision charges for a couple corporate cases in our LATAM portfolio.

And on slide 16, we show an evolution over time of provisions of the retail bank portfolio growth, which are perfectly within our expectations. It is important to mention that we are moving towards the third consecutive year of credit portfolio growth, and it's natural to expect a nominal provision expenses increase.

When we look at our fee revenues for 2019, on slide 17, which grew substantially above inflation, we can clearly see part of the benefits of being a universal bank. Itaú Unibanco's asset management and investment banking operations had their best performances ever, showing very strong growth of 25% and 79%, respectively.

Not less important were the results achieved by our credit card issuing business, which continue to grow its client base and revenues despite the fierce competition. Things were not as bright, though, on acquiring revenue, which declined 20.8% in the year. Client satisfaction improved a lot this year, though, as initiatives like the D+2 were implemented.

Going now to slide 18, we show that our non-interest expenses contracted in real terms, meaning that they grew only 2.5% in 2019, therefore, way below inflation and our guidance.

This was achieved by a strong and continuous investment in technology of automation and process efficiency. Despite this very positive performance, we understand efficiency as the main lever for improving profitability and we are focused on delivering furthermore structural gains in the coming years.



Our cost to income ratio had the highest improvement in a single year since 2014 and finished the fourth quarter at 44%.

On slide 19, we present Itaú Unibanco's 2019 dividends and net interest on capital will reach R\$18.8 billion. This represents a payout of 66.2% over our recurring net income, or 77.6% over our accounting net income, and a dividend yield of 5.5%.

On slide 20, we present a summary of our 2019 guidance. In Brazil, we reached or delivered better figures than the guidance in all lines which were provided. As for the consolidated, we missed the mark in four lines, being two of them better than forecasted and two worse than expected. The later due to unfavorable Forex in our Latin American operations, as well as due to a couple of corporate delinquency cases in LATAM. Despite these deviations, we had in the year our recurring net income... despite the deviations we had in the year, our recurring net income was well within the implied range of the guidance.

Now, about 2020. On slide 22, we present our expectations for the macroeconomic scenario for the year. Generally speaking, we expect a positive year for the country, with a higher GDP growth, with higher investments from the private sector, inflation should remain under control, which allow the cuts in interest rates in Brazil. Unemployment levels should continue its downward trend, but at a slow pace. Nevertheless, formal job creation should continue to evolve positively, and we expect to have in 2020 the highest formal job creation of the last six years.

On slide 23, we present our guidance for 2020. Starting with the credit portfolio, we forecast a growth between 8.5 and 11.5 in a consolidated balance sheet. It is important to highlight, though, that the LATAM portfolio is negatively affected by Forex variations, which means that the Brazilian portfolio should expand at a higher pace of 10.5 to 13.5.

The financial margins with clients should post a more conservative performance than in 2019 due to negative impacts from the interest rates cap in overdraft loans and an average lower Selic rate. Despite these important negative effects, we expect the financial margin with clients to grow up to 3% on the back of the credit portfolio growth and a somewhat stable credit origination mix.

Our cost of credit should end 2020 between R\$18.5 billion and R\$22 billion. This growth is driven basically by credit portfolio expansion. Commissions, fees and result from insurance operations should continue to grow strongly above inflation, expanding between 4.5 to 7.5%.

Finally, the midpoint of our guidance for non-interest expenses was a half percent contraction. It is the first time we provide a guidance indicating cost contraction in nominal terms, which, in real term, could represent cost savings in the magnitude of 4% year on year, depending on the inflation.

This guidance is a clear sign of our commitment to improve the firm operational efficiency mainly supported by increasing IT investments and tight control management. This search for increased efficiency should be seen as a long-term, multi-year effort and not as a one-off.



Lastly, we expected a higher effective tax rate due to the hike of social contribution tax for financial institutions. The guidance for our Brazilian operation should closely follow the trends forecasted for the consolidated figures.

With this, we conclude this presentation and 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 the star key followed by one. The question will be limited to two per participant.

If at any time you would like to remove yourself from the questioning queue, press star 2.

Our first question comes from Jason Mollin, Scotia Bank.

Jason Mollin: Good morning everyone. My question is related to the operating regulatory environment for Itaú Unibanco and your peers. I guess I'd be interested in your views on the cap that was implemented for interest rates on overdraft lines, and if this was anticipated it looks like... it clearly looks like the impact is material, especially... in particular on your outlook for financial margins with clients in 2020. If you could provide some color about why you think this was implemented and if you expect further interest rate caps. Thank you.

Candido Bracher: Thank you Jason. Good morning. Well, yes, the cap really represents significant impact on our financial margin with clients. We estimate an impact of around 5%. It is really an important cap.

We do not expect further caps on interest rate. We think this overdraft lines were a special case in Brazil, very meaningful and very criticized in general by society, who failed to see that, I mean, the very high level of interest rate charged on overdraft was a direct consequence of the fact that overdraft taxes... overdraft is to be charged in Brazil.

As the resolution came out by the Central Bank, they also allowed for overdraft fees to be charged, but in a manner which we do not think is feasible or adequate to charge them, charging them on the limit and not at the moment when the client exceeds its belts and enters into the negative terrain. So, we have taken the decision not to charge this commission, this fee from our clients.

Jason Mollin: Thank you. Maybe a second question on the outlook that you described. On our calculation, if you put in your guidance, we come up with low single-digit earnings growth for 2020 versus 2019, if we look maybe 2-3% on our numbers. But if we go out farther, 2021, would you think that this kind of earnings growth rate would stay the same, accelerate or decrease? Thank you.



Candido Bracher: Thank you, Jason. Well, I cannot confirm your forecast on earnings growth since we don't supply earnings growth. But I think it is fair to say that we expect 2021 to have a higher earnings growth than 2020, and the reason being that in 2020 we have three significant headwinds, which are once and for all events: the cap on the overdraft; the interest rate, which is more than 1.5% and the average in 2020 will be more than 1.5% lower than in 2019; and the higher tax, social tax.

So these three effects, which are once and for all, we don't expect them to grow worse in 2021, so 2021 should have a growth clean of these negative effects, which we will experience in 2020.

Jason Mollin: That's very helpful. Thank you Candido.

Candido Bracher: Thank you.

Operator: Our next question comes from Jorg Friedemann and Citibank.

Jorg Friedemann: Thank you very much for taking my question. I have two questions as well, the first one related to the guidance of cost of credit. In the midpoint of the range you expect a loan growth of 12% and cost of credit of 11.3%, so cost of credit slightly below the midpoint of the range of loan growth, which, in my understanding, implies or, you know, a poorer loan mix under the expected loss. I understand that you provision more towards riskier loans, or, you know, some consumption of coverage. So, could you elaborate a bit on these two topics: Coverage and loan mix related to your guidance of cost of credit? This is the first question, and then I'll come with my next one. Thank you.

Candido Bracher: Thank you, Jorg. Concerning cost of credit, I mean, our estimation is that it will grow approximately in line with portfolio growth. I do expect portfolio to grow a bit more in lines which have a smaller default rates, such as mortgage and payroll loans.

So this could explain, in part, what you mentioned. The rest is the normal dynamics of cost of credit and portfolio growth. We are now entering our third year of strong growth in portfolio and this is... expected that cost of credit should grow according to portfolio, more or less.

Jorg Friedemann: Okay, Candido. Just a follow-up here. I understand the points on mortgage and payroll, but they are still retail. Should retail continue to, you know, outpace the rest of the portfolio as we saw in the financial system? Actually, in your particular case, you caught up on the corporate book in the fourth quarter versus retail, but just wondering what to expect going forward in terms also of SMEs and the other retail lines versus large corporates. Thank you.



Candido Bracher: As you can see, I mean, SMEs has been growing more than individuals, I mean, origination of SMEs at 31% whereas the individuals have been growing at 23%. I think these are sustainable figures of not a portfolio growth, but of origination growth.

In the corporate, I see 23% of credit origination growth here. I don't think this is quite sustainable. I mean, I think we will see lower figures here not because of lack of demand, but because capital markets will supply most of this additional demand by large corporates.

So, yes, I think that in balance SMEs and individuals' portfolio will overgrow the large corporates.

Jorg Friedemann: Perfect, that's very clear. And then my second question relates to the guidance of the financial margin with the market, differently from last year, I understand that the consolidated guidance for this year - between R\$5.7 and R\$6.7 billion - takes into consideration implicitly that a bigger portion of, you know, these results will be derived from, you know, the international operations versus last year. And just wondering here, you know, what does this rely upon? Maybe some unrealized gains that you have in, you know, Itaú CorpBanca's operations or what else is driving, you know, this strong margin with market, you know, outside Brazil? Thank you.

Candido Bracher: Thank you, Jorg. No, I mean, there is no unrealized stock of gains in the LATAM book. We do expect some more volatility in the LATAM book than in our Brazilian portfolio, and this volatility normally presents better possibilities of gains in the financial margin with the market. I mean, and some improvements more in Latin America than in Brazil.

Jorg Friedemann: Perfect. Very clear, thank you very much.

Operator: Our next question comes from Otávio Tanganeli, Credit Suisse.

Otávio Tanganeli: Hi, thanks for the opportunity. I have two questions, if I may. The first one is, we saw a very good performance on the asset management fees, I just wanted to understand how much of it do you think is recurring? Because the market performed really well on the fourth quarter, I would assume that there is a sizable chunk of performance fees which are arguably nonrecurring.

And secondly, on the guidance for operating expenses, how confident are you that you can reach the guidance? And what do you think that you can do inside the bank to reach the guidance? Is it closing more branches, optimizing the personnel structure? If you could give us a little more color on that it would be great. Thank you.

Candido Bracher: Thank you, Otávio. Well, on asset management fees, I mean, we are seeing a considerable growth in our season analysis. As you can see, we have a 20% growth in the traditional



asset and administration, and on the open platform 46.9% growth. So this growth is mainly what drives the results.

There was an important contribution from performance fees, and, obviously, I mean, this cannot be considered recurrent, we have set a very ingenious, in my opinion, way of having multiple asset management teams in our high-end funds, which are producing very good results, and so we are seeing a very good flow of performance fees so far.

In operating expenses, here there is no silver bullet. I mean, as it has been mentioned, I mean, this is a multi-year effort, I mean, we are gearing our efficiency index, I mean, lower, we are investing a lot in technology to do it, and I think these investments in technology are the main generator of the economies here.

We will close more branches this year, we still have not decided exactly how many, but it will be less than in 2019 for sure. The main aspect here of savings is process automation, process automation and a reduction in support functions in the bank due to this process automation.

Otávio Tanganeli: Very clear Candido, thank you.

Operator: Our next question comes from Eduardo Rossman, BTG.

Eduardo Rossman: Hi, good morning. I have two questions as well. The first one is a follow-up on the NII theme. I just wanted to understand if we should expect to see kind of a pressure from funding costs given that you are accelerating a lot the loan book. We can see that the bank has been a lot more proactive in offering deposits at 100% of the CDI to the customers, so besides, you know, the lower Selic, the cap in overdraft, do you expect to see some pressure on funding as well? So this is my first question.

Second question is on two assets that you have. Itaú has stakes in two relevant, liquid assets, minority stakes, which are IRB and XP. So I wanted to know, how do you see these investments, you know? Is it just a matter of price valuation for you to sell, or do you see them as quarter strategy? I want to know what could make you decide to eventually sell it. While these assets continue to deliver, you know, stronger earnings growth than Itaú, is it fair to say that you have no reason to sell?

So these are the two questions. Thank you very much.

Candido Bracher: Okay, thank you, Eduardo. As to the first question, I think you are right. I think funding is becoming tighter in the market as the economy grows and the demand for credit grows. I mean, we are seeing more competition for funds. Also, as interest rates come down and the trend of investors to move more towards funds, there has been a concentration in the sources of funding, which explains, I mean, more competition for funds. So, yes, we do take into consideration this scenario and the possibility



that funding will be... may be a bit costlier in 2020 when compared to 2019, as it was costlier in 2019 when compared to 2018. Always in relation to the basic level of the interest rates, of course. I mean, in nominal terms, it reduced because interest rates reduced.

As to IRB and XP, I think these are both participations that we have because they make sense in our balance of income in the bank. So, XP basically... the participation in XP basically increases the income flow from funding products, from investment products, and we think it's an excellent company, so we consider this a long-term participation.

The same thing may be said about IRB in relation to insurance. I mean, insurance is a segment where we definitely think we are underrepresented in the market, we strived to grow the participation of insurance in our business, and so, IRB makes every sense for us to keep here this participation on the longer term as well.

Eduardo Rossman: Okay Candido, thank you very much.

Operator: Our next question comes from Victor Schabbel, Bradesco BBI.

Victor Schabbel: Hi, good morning everyone. Thanks for the opportunity. I just wanted to make a follow-up on ITI and how Itaú is seeing its initiative in digital banking, how things are going, what are the lessons learned so far, what could be, let's say, improve going forward? So just some color on the strategy of the bank for the digital space. Thanks.

Candido Bracher: Thank you, Victor. I mean, there are many lessons learned with ITI as we evolve in this platform. This platform – that was created and was received as mainly a payment platform – is a platform to which we intend to add many different features, broadening the set of services that we offer.

Here we are in learning mode, we are expanding fast the number of members in ITI whereas monthly active users are progressing at a slowly pace because we think we need to add more features to the platform. We are enthusiastic about ITI, about the way it will develop in the future, but it's fair to say that we are at the very beginning of this journey.

Victor Schabbel: Okay, thank you.

Operator: Our next question comes from Eduardo Nishio, Banco Plural.

Eduardo Nishio: Good morning, good morning, Candido. Thanks for the opportunity. I have two questions as well. First one is if you could comment on cost of credit that is spiked 70% year on year on the fourth quarter, and also give a little bit of color of... you said that the cost of credit should grow in



line with credit in 2020, but, you know, when you see fourth quarter, it's kind of the opposite, right? You have a big spike in the fourth quarter, and your 2019 numbers point to a 29% growth year on year on cost of credit. So if you could comment, give a little bit more color on that, I would appreciate it.

And my second question relates to your ability to grow earnings. And if you step back a little bit, you know, a longer period, you know, despite you being the most profitable bank in industry – at least in the large banks –, you know, you've been running below peers in terms of earnings growth, and like it or not, you know, valuations, stock prices do follow earnings growth, and if you could comment a little bit on why you think Itaú is running below peers in terms of earnings growth and what, you know, are potential measures that you could potentially do in the coming years to propel earnings at a bit faster growth, I would appreciate as well. Thank you.

Candido Bracher: Thank you, Nishio. So, with relation to cost of credit, I think that the point out of the curve was 2019 and not 2020. I think that when we look at the 29% growth in cost of credit in 2019, I mean, we see specific cases which we can clearly identify, as well as also, I mean, even in smaller companies, I mean, specific *safras*, specific vintages of credit which had problems, problems which were tackled and had been dealt with and are now producing normal results.

So this is the main reason for us to expect that in 2020 we will come back to the trend of cost of credit evolving in line with the growth in the portfolio. So we are seeing no exceptional reason why it should not be this way, I mean, these exceptional factors which we can clearly locate in 2019.

With respect to earnings growth, I think there is a limit to the way you can run a bank looking only at your competitors. I mean, you should trace a way, a long-term strategy and follow it. So, on the first slide of this presentation we talked about our long-term strategy, which is basically centered in the client, in improving customer satisfaction and supported by the three pillars of digital transformation, people and efficiency.

I am very satisfied to see that the good results which we presented in 2019 were attained in the same token as we have improved in every one of these structural lines, and the results there I think they are impressive, I mean, to gain 27% efficiency in shorter time in our technology deliveries, to improve 9 points in NPS, to have a 2.1 point improvement in efficiency index, and these are not short-term movements, I mean, these are movements which continue over time, and I think that these are the movements that will grant us increasing earnings over the next years.

I already mentioned in one or two questions why I think that earnings growth in 21 will be bigger than in 20. I cannot comment about our competitors' evolution, but what I can say that I am pretty confident on the positive evolution of the earnings of Itaú Unibanco.

Eduardo Nishio: Thank you so much, very clear. Thank you.



Operator: Our next question comes from Carlos Gomes, HSBC.

Carlos Gomes: Hi, good morning and thank you for allowing the question. I wanted to ask you about the cost control. As you said, this is probably the most drastic guidance that we have seen from many Brazilian banks ever, and I wonder, I mean, does that mean that you are more conservative in terms of how the market can grow? How is it possible for you to lower the costs with a growing loan portfolio and you have to do IT investments? What are the main drivers for this coverage action and how sustainable is it?

The second, in the long run, as you said, you are driving the bank for the future. In the next five or six years, where do you think the ROE of this business can be for Itaú and what will be the normalized payout that to are expecting in those circumstances? Thank you.

Candido Bracher: Thank you, Carlos. As to cost control, I mean, we have been delivering expenses growth below inflation for some time now, and this year was very good in this sense. I mean, these savings they come mainly from process automation, from closing branches, from the layoff program that we made, and from changing the way of working in the bank, changing the structure of the bank, mainly relying less on support functions, I mean, saving and support functions.

It's not doing less; it is trying to do better what we do, more efficiently and so on. There is a big help from technology. We are seeing significant progress here. Let me tell you, I do not think this is not a challenging guidance. It is a challenging guidance. I think a guidance has to be challenging to stimulate the bank, but I think it's quite a good guidance, it's quite a perfectly feasible one, this one of cost control.

You asked about ROE and payout. We do not give guidance on these two items for very simple reasons, Carlos: ROE is very much dependent on the market evolution, on competition and so on. We had this highest ROE in the last 17 quarters, in the last quarter of 23.7, and somewhat surprised by that, I think that with the low interest rate scenario, cost of capital being lower, I mean, there should be a downward trend in ROEs. But I'm not seeing this very radically in the near future, though.

As to payout, we have a clear stated policy where the variables are known. And so, I mean, it depends a lot on ROE, it depends a lot on the evolution of RWA, so, I mean, how we can grow with the market, and other changes, regulatory changes, tax changes that may happen. So, this is the reason why we supply no guidance.

Having said that, if in the future we see a downward trend in ROE and we see portfolios growing strongly, it would be expectable that payout should be reduced.

Carlos Gomes: Okay, thank you very much.



Operator: Ladies and gentlemen, as a reminder, if you would like to pose a question, please press the star key followed by 1.

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

Candido Bracher: Just to thank everybody for participating and the very good questions. Thank you.

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