



Itaú Unibanco - International Conference Call
Extraordinary call
May 12th, 2017

Operator: Good morning ladies and gentlemen, welcome to Itaú Unibanco Holding conference call about the acquisition of a minority interest in XP Investimentos.

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.itaubr.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 May 19th by phone, on +55 11 3193-1012 or 2820-4012 – access code 3081217#

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**, Executive President and CEO, **Mr. Caio Ibrahim David**, Executive Vice President, CFO and CRO and **Mr. Marcelo Kopel**, Investor Relations Officer.

First, **Mr. Candido Bracher** will proceed to the presentation and after that we will open for question and answer session.

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

Candido Bracher: Good morning to all, thanks for participating in this call. We are very happy to announce the conclusions of the negotiations for an acquisition of a minority interest in XP Investimentos.

First, I'd like to say that our decision to invest in this company is related to our business model and it will be in greater diversification of our activities with special focus on our activities related to services and fee income, which demand lower capital allocation. We believe that a distribution of financial products through open platforms will be more relevant for the industry and more important for our clients, so, for us, this transaction is an important step towards this direction of better serving our clients.

This is a business with great growth potential and, due to relatively low market penetration, it should grow above industry average in the next years. It is very important to notice that XP will remain operating fully independently and will continue to compete with Itaú Unibanco.

Moving to **page 2**, I'll begin by saying that the rationale of this transaction is related to XP's proven business model, which is focused on customer experience, on improving customer experience. The open platform allows flexibility of choice for clients and a wide range of



products. The company has a broad access to investors through alternative distribution channels, including approximately 2,000 independent financial advisors.

This is a business with great growth potential due to the ongoing process of investors becoming more sophisticated in Brazil and the relatively low market penetration.

XP is an outstanding player in the segments it operates in Brazil, both in the distribution of fee income and variable income products and in the structure of financial products.

From our standpoint, as I mentioned in the introduction, this transaction reinforces our business model, which has a special focus on fee income. This is an acquisition of a minority stake that will increase over time. The control and the management of the company will remain with the actual controlling partners of XP Investimentos. The operation will bring value creation for our shareholders based on the expected accelerated growth of the company.

Finally, it is worth mentioning that the transaction will have an impact of 80 basis points in our capital ratio common equity tier 1 fully loaded, which in March 2017 was 13.8.

Moving to **page 3**, where we have an overview of XP Investimentos, in this chart we present the company's details. The company was founded in 2001, as an independent financial advisor firm, and it started to operate with brokerage activities in 2007. Today it is present in 130 Brazilian cities, in 24 states, besides having offices in Miami, New York, London and Geneva.

It has 850 employees and around 2,000 independent financial advisors. The clients base, the active client base, is approximately 410,000 clients and the company has today approximately R\$ 85 billion in assets under custody and R\$ 12 billion in assets under management.

In the bottom of this slide, there is a timeline with the company's history. In this timeline, we can observe the acquisition history over time and the entry of the venture capital investor, or private equity investors in the company. More recently, in December 2016, Rico Corretora was acquired by XP.

Page 4, we outline the structure of the transaction. So, in this first acquisition we are acquiring 49.9% of the total capital of the company, being 30.1% of voting shares. This acquisition will go as follows: first, a capital increase in the amount of R\$ 600 million will be made in the company. The acquisition then of share owned by sellers in the amount of R\$ 5.7 billion. So, this brought a valuation for 100% of the capital of approximately R\$ 12 billion, which considers an estimated price to earnings ratio for 2018 of 20 times.

In addition to this first acquisition, we are committed to acquiring in 2020 an additional stake of 12.5% of the capital, which will bring us to 62.4% of the total capital, being 40% then of voting shares. This acquisition will be made based on a multiple of 19 times earnings of 2020.

In 2022, an additional stake of 12.5% will be acquired by Itaú Unibanco. This will bring us to participation in total of 74.9% of XP's total capital, but still a minority of the voting shares, we will have 49.9% of voting shares, so the control remains in the hands of the present controllers of the company. This acquisition will be made then, in 2022, based on XP's market fair value at the time.

Beginning in 2024, the shareholders' agreement establishes the right of the controllers to exercise a put option to sell its remaining interest in the capital of XP to Itaú Unibanco, and as of 2033, more than 15 years from now, Itaú Unibanco will have the right to exercise a call option to purchase the remaining stake held by XP controlling shareholders.



So, this means that Itaú Unibanco will only control the company in the scenario where either the put option or the call option are exercised from 2024 or from 2033 on.

Page 5 we show the ownerships structure of the company, how it is today and how it changes after this first acquisition. So, currently the company is 50.5% held by the founding partners - their partners and associates -, being 74.5% of the voting shares. The other 49.5% are held by investors partners, being 42.9% held by General Atlantic and 6.6% by Dynamo. Together these partners have a stake of 24.6% of the voting shares. So, this is the situation today.

After the acquisition, Itaú Unibanco will have 49.9% stake of the company total capital, having 30.1% of voting shares, and the founding partners will have a 30.1% of total capital, being 60.1% of voting shares, while General Atlantic and Dynamo will have a 20% of total capital, being 9.8% of voting shares.

So finally, on **page 6** we show the guidelines of governance of the company. So after complying with some specific precedent conditions, which include the regulatory approvals, we will have as part of a shareholders' agreement the following items: Itaú Unibanco will have some rights as a minority shareholder of XP Holding. We will have the right of appointing 2 out of 7 Board members. The control of the group will remain with XP control shareholders, with the founding partners. The management and business decisions will remain completely independent, segregated and autonomous. The current management and the executives will continue to conduct the business of the company, so there will be a preservation of the current principles and values, which have guided the company so far. XP will continue to act as an open and independent platform, competing freely with other brokers and capital markets distributors, including Itaú Unibanco, without any restrictions or barriers. Itaú Unibanco will act as a minority shareholders with no influence over the commercial and operational policies of the group, and Itaú Unibanco will have no preference or exclusivity rights regarding distribution of products by XP.

So, this is the basic outline of the transaction. I now open for your questions.

Q&A Session

Operator: Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question, please, press the star key followed by the one key on your touchtone phone now. If at any time, you would like to remove yourself from the questioning queue, please press star two.

Our first question comes from Marcelo Telles, Credit Suisse.

Marcelo Telles: Hi, hello Candido, hello everyone. Thanks for the opportunity and congratulations on this investment. My question is, with regards to the distribution of Itaú's products, I mean, is there any like kind of commercial agreement in addition to the investments you are making? Can XP Investments distribute like Itaú funds or do you plan to distribute Itaú Unibanco's funds through the channel? And how do you prevent, let's say, some potential conflict of interest in terms of which products to sell on which channel? How should we think about that going forward? Thank you.



Candido Bracher: Thank you Marcelo for your question. I think it's a very good question, and let me tell you, there is no, I mean... nothing is planned in anyway in distributing Itaú's products in the XP platform. It's not prohibited to do so, but this can happen as it could happen if we had not acquired a participation in XP. So, it's a totally independent decision which, when and if, will be taken arm's length with XP management, as XP will decide upon this as they will decide upon distributing products of any other bank in the market.

I must confess to you that I currently have no position about this, if it is in the interest or not of Itaú to distribute its products in the XP platform.

Marcelo Telles: Thank you. And just one final question, does the agreement prevent you from buying or acquiring, let's say, another independent brokers? Anything that prevents you from making additional acquisitions in the space? Thank you.

Candido Bracher: No, we are not prevented from making additional acquisitions in the space. I just don't see now why we would do it. I mean, having made an investment in the best company in the sector and the leading company in the sector, which has quite a few years in advance of its main competitors.

Marcelo Telles: Perfect, that was very clear. Thank you and congratulations once again.

Candido Bracher: Thank you, Marcelo.

Operator: Our next question comes from Jason Mollin, Scotia Bank.

Jason Mollin: My question is related to the R\$ 12 billion valuation for the whole company. You stated it is 20 times the estimated earnings for 2018, that would imply R\$ 600 million in earnings. What did the company earn in 2016 and what are the main assumptions in getting to this kind of... I mean, it looks like... I think it's pretty reasonable growth.

Candido Bracher: Thanks, Jason, for your question. The company earned last year I think approximately R\$ 240 million. So, you are right, I mean coming in two years from 240 to 600 is a significant increase in profits. I must tell you that this is less than the company itself expects, but this is according to... this is the projections we have made and it basically, I mean, follows the trend that the company has been approaching its profits and the fact that the penetration of this type of brokers in the market is still relatively low.

Jason Mollin: What are the main drivers? Is this, you know, certain number of investors moving their funds from different brokers to XP? Is this just penetration absolute growth of the



market in gaining share? How should we think about the business and the expectations for growth? What's driving them? What are the main drivers just aside from just low penetration? Is it based on economic growth recovering to a certain level? I'm imagining this is a base case scenario, things could perhaps go better or worse. What kind of expectations do you have built into this growth?

Candido Bracher: Jason, I think the base expectation is the continuation of a trend which has been happening on the past years, which is these companies gaining market share from the banks in the market. I think this is basically what we've been seeing, so acquiring new clients, transferring clients from banks to companies like XP.

As to the forecast of the economic situation in Brazil, I mean, we did not, in our projections, foresee significant change in the economic situation of Brazil. So this is... we are not counting on a great improvement in market conditions. Our projections are compatible with market conditions remaining approximately as they are today.

Jason Mollin: Thank you very much.

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

Carlos Macedo: Thanks. Good morning gentlemen, thanks for taking questions. Congrats on deploying your excess capital on something that grows fast. Question 1: You, you know, the XP control shareholders are going to put around R\$ 2.5 billion in their pockets with the transaction, obviously, that's a lot of money. How do you keep them incentivized so that they keep growing the company to deliver the kind of earnings that you are forecasting? Is there some sort of provision in the agreement other than just taking them out in few years, which obviously put a lot of money in their pocket, but R\$ 2.5 billion already is a lot of money. So, just trying to get an understanding in there.

Second, a little bit more technical for us to update our models, how will this be treated within Itaú context? Is this going to be consolidated in a line by line basis, is it going to be goodwill? What should be expected there? Thanks.

Candido Bracher: Hi Carlos, thanks for your questions. I mean, concerning the first question, I mean, it is true, there will be some liquidity going to the control partners, but we must... first, I think the basic thing that we must think about - and this came out but clearly in our negotiations and so on - is that these controlling partners they are passionate by what they do. I think this was one of the main drivers for our interest in acquiring the company, is the talent, is the quality of the management and, included in the policy of the management, is the passion they displayed for what they do, and I really don't think that the fact that they have more liquidity now, I mean, will in any way hamper their interest in devoting to the company and expanding the company in any way.



But, besides that, we you must think also that, two years from now, they will be selling also a part in their shares for 19 times profits. So, I mean, I think this is a powerful reason to remain committed to the company. Four years from now, again, other participations will be sold then at fair price, and the fair price, of course, increases with the value of the company. And from 2024, as they have the put option at fair price.

So, I think, I mean, they have... I don't think they need this kind of stimulus to be devoted to the company. But even if they didn't have their own reasons, which they have been showing, I mean, the passion for what they do, I mean, these economic reasons I think would also work in the way of having them committed to the business.

For the question concerning, I mean, how this appears in our book, I will ask Caio to answer this question.

Caio Ibrahim: Hi Carlos, this is Caio. How are you? Actually, there is a goodwill and this goodwill is pretty much reflected in our disclosure about the impact in our BIS ratio fully loaded, and there is no consolidation line by line. That's pretty much what I understood from your question.

Carlos Macedo: Yeah, that's it, so the goodwill will be... we can just back that out from what you said. So, it won't be consolidated in a line by line basis. Will you counter this as an equity investment there, then?

Caio Ibrahim: Yes. Exactly.

Carlos Macedo: Okay, thank you.

Operator: Our next question comes from Philip Finch, UBS.

Philip Finch: Good morning everyone and thank you for the presentation. I have a couple of questions, please. On slide 2 you indicated that this initial transaction with lower core Tier I ratio by 80 basis points. Could you also share some color on what the impact could be on profitability and returns?

And secondly, for this transaction to go ahead, who do you need to get regulatory approval from and what do you think could be the timing for this? Thank you.

Candido Bracher: Thanks Phillip. I think that the transaction, mainly in the first years, will not alter significantly the profitability of the bank. We expect it to increase the profitability value accretive starting two years from now or something. In the first years, I mean, our profitability remains basically unchanged.



We need approvals basically from the antitrust body in Brazil (Cade) and from the Central Bank. It is very difficult to make provisions about how long the process may take, but I think, I mean, we are on the safe side if we estimate a little under a year for these approvals to be obtained.

Philip Finch: Okay thank you and good luck.

Candido Bracher: Thank you.

Operator: Our next question comes from Jorg Friedman, with Citibank.

Jorg Friedman: Thank you for the opportunity. You know, the first is just to confirm my understanding that the prior transaction that XP was conducting, an IPO in the company, will not take place given that we still have the private equity firms being part of the controlling group. And then I add my second question. Thank you.

Candido Bracher: Yes, so I confirm that. I mean, the IPO will not take place in the near future.

Jorg Friedman: Perfect, thank you. And the second question is if this remaining acquisition that you are doing, the R\$ 5.7 billion that you are paying for the shares, is Itaú considering a share swap to pay for these shares or it is going to be only cash? Thank you.

Candido Bracher: Thank you Jorg. It's cash only.

Jorg Friedman: Perfect. Thank you very much.

Candido Bracher: Thank you.

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

Tito Labarta: Hi, good morning and thanks for the call. Just a question to follow-up I guess a little bit on the growth potential, and sorry if I understood [0:26:35 unintelligible], but you mentioned you they 85 billion in assets under custody, 12 billion assets under management. In terms of the size of the market, what's their market share and how fast do you see that market growing and how quickly do you think they will gain to market share, or if you think that is an expectation to that? Thank you.



Candido Bracher: We estimate the size of this market to be a little under R\$ 3 trillion. So, I mean, their share is around 2.5% of the market.

And sorry, your second question?

Tito Labarta: And then in terms of the growth, like how quickly you see that truly and how fast is that growing and how quickly can they gain market share?

Candido Bracher: I think, I mean, it of course depends on how the penetration of companies like XP in the market grow. I mean, the penetration of the total of these companies today is about 6% of the total market. We expect this figure to grow over the next decade or so and to reach 15 to 20%. So...

Tito Labarta: Sorry, the 15% to 20% is the market share that they will have or how the market will grow from 15 to 20%?

Candido Bracher: No, 15% to 20% is the market share that companies like XP will have, that brokers will have in the market. Today they have 7%. As you know...

Tito Labarta: Okay. So, the brokers today have 7% and they will go to 15% to 20% in next years the largest one?

Candido Bracher: Exactly.

Tito Labarta: Great. OK. And then the growth of the market, any estimates for how fast the market is growing or will grow?

Candido Bracher: We have a compounded average growth rate for this market of about 10% a year.

Tito Labarta: Okay, perfect. Thank you very much.

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

Carlos Gomes: Thank you. Good morning. Two questions. On the goodwill, so that I understand, you are investing 600 million, is the entire 5.7 billion therefore goodwill? And on what period do you expect to amortize it?



And second, regarding the neutrality to earnings, should we understand that you are including in that, not affecting your earnings, the fact that the goodwill will be tax deductible? Thank you.

Candido Bracher: Thank you Carlos. Caio will answer your question.

Caio Ibrahim: Hi Carlos. We are still refining the forecasts for the goodwill, but I would say that it will not be something below 7 years. So, around 7 to 10 might be best guess here. But we are still working on numbers.

Carlos Gomes: Thank you.

Operator: Our next question comes from Domingos Falavina, with JP Morgan.

Domingos Falavina: Thank you. Congratulations on the results. My question is actually on the... actually two questions, first one is on the goodwill. Are you planning on doing a purchase price allocation, meaning is this tax-deductible? And if it is, are you booking that in XP or the goodwill is stay at Itaú level? Just so that I understand if the price paid would be about 20-30% lower assuming there is tax shield.

And second question is regarding... I understand it hasn't been decided if Itaú's funds will be sold at XP, but what about XP platform in Itaú? Or you're also planning... hasn't reached any decision as far as offering or not? At least in Itaú Personalittè.

Marcelo Kopel: Hi Domingos, this is Kopel speaking. I'll take the first question. Regarding the goodwill, goodwill will not be, you know, it's not something that will be tax-deductible. As you know, we don't consolidate... we will not control the company, therefore we will not consolidate the company, okay? So, basically, you know, this will remain as not considered in our evaluation.

Candido Bracher: As to the second question Domingos, the situation is exactly the same as it was in the first question concerning Itaú distributing its products in XP's platform. So, for Itaú to distribute XP in its platform, nothing, I mean, we have not thought about anything in this lines and if ever we decide to do something like this, it will be XP's decision, if they want to do it or not, and not our decision if we have it or not, and the negotiations will be arm's length as it would be with any other bank and XP.

Domingos Falavina: If I may add a question, a follow-up on Kopel's answer, so Kopel, if I understand it correctly, your understanding is it needs control change in order to trigger the tax benefit. So, does that mean that a couple of years down the road, assuming you do executed the callable option and control gets to Itaú, and then you would have the tax benefit?



Marcelo Kopel: Yes, I mean Domingos, yes, this is all, as Candido mentioned and explained in the structure, you know, up until and if and when either the call option or the, actually first, the put option or the call option are exercised, this will change the control of the company, which, you know, subsequently can allow the company to be consolidated and eventually restructured. So, therefore it's a long shot and that's the reason why we didn't consider that into our valuation.

Domingos Falavina: Understood. Thank you. Congratulations.

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

Candido Bracher: I just want to thank everyone for participating in this call and I must say, I mean, this a transaction that makes us especially happy for having concluded it in such a short time. We are very enthusiastic about the prospects of this, cooperating with XP, this partnership with XP.

Thank you very much.

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