International Conference Call
Itaú Unibanco
Fourth Quarter 2018 Earnings Results
February 5th, 2019

Operator: Good morning ladies and gentlemen, welcome to Itaú Unibanco Holding conference call to discuss 2018 Fourth Quarter Result.

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

First, **Mr. Candido Bracher** will comment on 2018 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**.

Mr. Candido Bracher: Good morning to all and thanks for participating in our fourth quarter and 2018 full-year earnings conference call.

Starting the presentation on **slide 2**, here we show the main highlights of our performance for the quarter. Recurring net income was R$6.5 billion, which resulted in a ROE of 22.7% in Brazil and 21.8% in the consolidated figures. The results from commissions, fees and insurance performed particularly well this quarter, growing 6.2% over the preceding period. This performance was mainly driven by our asset management and investment banking units.

Our financial margin with clients, or NII, also increased over the last quarter, especially as a result of the growth of our individuals and SMEs credit portfolio. Despite this growth, our NPL ratio remained stable in the period. The increase in cost of credit this quarter was caused by higher impairment charges in corporate bonds.

Expenses in the fourth quarter are usually higher than in the third quarter, especially as a result of the full impact of the annual collective agreement with the bank employees' union and seasonally higher expenses related to commercial activities. In the fourth quarter this increase was of 1.2%.

Lastly, our individuals and SMEs portfolio increased 5.7% and 4.9%, respectively, in the quarter, continuing the same trend seen throughout 2018. On the other hand, the negative

ForEx variation on our Latin America portfolio and a decrease in the corporate book led to the instability of the total credit portfolio seen in the quarter.

Talking now about the full year 2018. On **page 4**, before we proceed with a deeper analysis of our performance during this year, it is worth to mention that the Brazilian economy performed somewhat differently than what we had expected at the beginning of the year. GDP growth is likely to stay at 1.3% and not 3% as we originally forecasted. The truck drivers' strike was one of the main factors – one of the many factors that contributed to this weak performance, which naturally results in a lower demand for financial services products.

Additionally, when we released our 2018 guidance, we expected the exchange rate to be around R$3.50 per dollar at the end of 2018 and not the actual 3.88 year-end rate. Higher ForEx rates contributed negatively to our costs and expenses numbers and positively to LaTam results. With this kept in mind, we can now check how accurate was our guidance for 2018, which I remember you we did not alter throughout the year.

Now on **page 5**, we can see that, despite the differences between the forecasted and the actual market economic scenarios, out of the 14 ranges provided, we performed below expectation only on two of them. One was noninterest expenses on the consolidated range and the other was fees in Brazil. Despite these deviations, our recurring net income was well within the implied range of guidance.

Moving now to **page 6**, we show that our recurring net income for 2018 was R$25.7 billion with a ROE of 21.9% in the consolidated. This led to a value creation of R$9.2 billion, a 12% growth when compared to 2017.

On the next few slides, we will comment on the performance of each of the lines we forecasted for the year.

On **slide 7** we show that our total credit portfolio grew 6.1% in 2018, above the midpoint of the guidance. This performance was a direct result of our individuals and SMEs portfolios, as they have grown beyond our expectations, amounting to 10.3 and 14.4 in 2018, respectively.

Origination remained over the 20% mark over the year in the individuals and SMEs portfolios. Origination on the corporate book was not strong enough to compensate for amortizations during the period, resulting in a decline of 4.7% of the total book in this sector. This weak demand does not imply a reduced relationship with our large corporate clients, as we continue to advise and help them access the capital markets, where we play a leading role in distribution and origination of corporate debts.

On **slide 8** we present our financial margin with clients. The 2.2% increase was mainly caused by the average loan book growth and the change in the mix of our credit portfolio toward higher interest-bearing products. Also of note was the margin in our Latin American operations, which benefited from ForEx and credit growth as well. These effects were partially compensated by the negative impact of the lower Selic rate in our liabilities margin and our own working capital.

It is worth to highlight that while the average Selic rate declined 335 basis points in 2018, our gross net interest margins remained relatively stable and our risk-adjusted NIM expanded 50 bps in the same period.

On **slide 9** we show that our financial margin with the markets declined 12.7% over the year. This was mainly caused by the reduction of the Selic rate and its impact on the hedging strategy of our investments outside Brazil. Despite that, I mean, this has been largely anticipated by ourselves and we even managed to remain a bit above our guidance in this item.

Turning now to **slide 10**, the cost of credit reached R$14.1 billion in 2018, in line with the midpoint of the guidance and it represented a decrease of 21.9% when compared to 2017. The cost of credit ratio for the full year decline 80 basis points.

NPL ratios for individuals and SMEs behaved well during the period and the increase observed on the corporate book is mainly represented by companies that were already appropriately provisioned. This dynamic resulted in a reduction of the coverage ratio, as we already indicated that could happen in previous conference calls.

Slide 11 shows our revenues from services and insurance, which grew 5.5% in 2018, reaching the bottom end of our guidance for the year. The main positive highlights were our current account in asset management fees, as well as our investment banking business. Also important was the performance of our credit card fees, where we had a solid performance in the issuing business, growing not only our client base in transaction volumes, but also revenues.

On the other hand, there was a reduction in revenues in our acquiring business despite the increase in transaction volumes. The reduction in our acquiring business exceeded our expectations as a direct result from higher competition in the segment and correspondent changes in our commercial strategy.

Now turning to **slide 12** we show our non-interest expenses. During 2018 we intensified our investment, especially on our acquiring and insurance operations. This led to a 3.3% growth in non-interest expenses in Brazil, which was in line with our guidance. Due to a deeper devaluation of the Real than we originally expected, our consolidated non-interest expenses grew 5% in 2018, which was above our guidance for the year.

On **slide 13** we show our capital ratios and the payout for 2018. We finished the year with a Basel III Tier 1 fully loaded capital ratio of 15.9%. If we account the additional dividend distribution announced yesterday of 16.4 billion, our Tier 1 ratio will be 13.5%, in line with our dividend practice.

The total dividend payout, including the shares bought back through the year, reached 89.2%. This payout ratio translates into a dividend yield of 7.5% for 2018.

On **slide 14** we present the distribution of added value in 2018. Itaú Unibanco added R$73 billion to society that helped to boost the economy and to stimulate the transformation of power of thousands of people. Of that value, 30% was designated to our employees, 32% to taxes, fees and contributions, 33% to our more than 150,000 direct shareholders and approximately 1 million indirect shareholders in Brazil through investment and pension funds, and 3% to reinvestment in our operations.

In 2017 we announced our six strategic objectives for the bank, long-term strategic objectives, and broke them down in two categories: continuous improvement and transformation. On **slide 15** we present what was delivered in 2018 to materialize the three transformational objectives. These three objectives are strongly interconnected as our main objective is client centricity, and all initiatives presented here were developed to support this main objective.

One example is that our open investment platform, to open our investment platform, we used new technologies coupled with a complete reorganization of the way we work: We moved from a hierarchical structure to flexible teams reorganized as communities formed as employees from technology, operations and investments areas. In addition, to attract and retain a more diversified workforce, we are working on including diversity and changing our recruiting process. We also adopted a new dress code creating a more relaxed and informal environment.

Now about 2019. On the following slides we will talk about our expectations for 2019 and, on **slide 17**, we show our macroeconomic forecast for the year. We expect a generally more positive year than 2018, with a 2.5 GDP growth in Brazil. We also expect inflation to remain under control at 3.9%, what should allow the Selic rate to remain flat throughout the year. In this scenario, unemployment rate should continue to decline, and we expect it to end 2019 at 11.6%.

On **slide 18** we present our guidance for 2019. We expect our credit portfolio to grow between 8% and 11%, which should translate in a range of growth between 9.5% and 12.5% for financial margins with clients. We expect the financial margins with the market to end the year between R$4.6 and R$5.6 billion. Our cost of credit should grow, and we expect it to end 2019 between R$14.5 and R$17.5 billion. Our commissions, fees and results from insurance operations, our forecast is an increase between 3% and 6%. As for non-interest expenses, we expect a growth between 5% and 8%. Lastly, we expect our effective tax rate to be between 31 and 33%.

The guidance for our Brazilian operation should follow closely the trends forecasted through the consolidated.

With this, we conclude this presentation and are now open to any questions you may have. Thank you.

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 the one key on your touchtone phone now. 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: ... forecast for loan growth. Obliviously your forecasting improvement versus what was going on in 2018, but it is pretty impressive because Itaú Unibanco has been able to show very consistent returns on equity in the 20+ percent range through a very challenging period. Things are getting better. How much better should things get? And are we on that path to seeing things much better, and is that part of the guidance expectation? Is that, things are that much better or, you know, I just think versus some of your peers we've seen somewhat more aggressive expectations for 2019, and I just want to get your perspective on what is in this outlook that you are forecasting. Thank you.

Candido Bracher: Good morning Jason. I am not sure I got the whole of your question because you were cut in the beginning. But if I understand well, you are asking me to comment on our guidance, on our forecast for 2019. Is that it?

Jason Mollin: Yes, what is the… what are the assumptions going into this expectation for GDP growth and your expectations for Itaú Unibanco's operations? Trends in terms of reforms, is pension reform going to get done? Is that part of this expectation for growth this year or is really that… that's not part of this expectation at all, or it will be a 2020 event?

What's going into this? If you can provide some color to the background of what's going into this outlook.

Candido Bracher: Sure. The approval of the pension reform is definitely included in these expectations. What we expect… I mean, this does not have so much of an impact on growth for this year, which, I mean, our forecast is 2.5%, it's under revision by our economic team now, may end between 2% and 2.5%. But the approval of the pension reform will not only guarantee this growth as will create a whole environment of optimism in the economy, which we think will boost demand for credit and investments. So, yes, this is a premise of these projections.

You've seen, I mean, we have grown total credit portfolio this year in 6.1% and we are expecting to grow between 8% and 11% for next year. One point which is very important is that the average balance of credit, the average portfolio is expected to grow significantly this year, which was not the case in 2018. In 2018 the average balance portfolio was lower than 2017. This is why this year we expect a significant improvement in the financial margin with clients. A good part of this improvement is based on the fact that the average portfolio is going to be significantly higher.

Another part of this improvement in the financial margin is due to the mix change. I mean, to the fact that the mix is moving from clients with lower PD to clients with a higher PD, individuals and SMEs. This in turn has… I mean, if in one hand helps to boost financial margin with clients, on the other hand it also increases cost of credit, and this is the explanation why we are forecasting a bit higher cost of credit this year. It's not only portfolio growth, but it's also the change in mix.

But all this was a background of a growing economy and an optimistic mood in financial markets as a result from a stable fiscal front, as a consequence of the approval of the pension reform.

Jason Mollin: So, when we look at the guidance for the effective tax rate for Brazil of 32% to 34% that's not assuming any material changes in the... I guess that assumes the change in the social contribution, but no additional changes, no change in the tax deductibility of interest on capital or other changes in the corporate tax rate. Is that correct?

Candido Bracher: Precisely, Jason.

Jason Mollin: Thank you very much.

Candido Bracher: You are welcome.

Operator: The next question comes from Jorg Friedman, Citibank.

Jorg Friedman: Thank you very much for the opportunity to make questions. I have two questions. The first, it came to me as a surprise the cost of credit values. I understood the brief explanations about, you know, the mix change, but in the midpoint of the guidance the cost of credit implies the growth of almost 14% versus 2018, which is not only more than, you know, the loan growth expected for the year but also, you know, the top of the financial margin with clients.We saw that NPL for the large corporate segment continues a bit volatile, so could you elaborate a bit further if there is any specific case that should be still under rising provisions in 2019? And also, if possible, it would be interesting to get your sense about the evolution of impairments, discounts and coverage, which is still at very comfortable levels at 221%.

This is the first question, and the second question, following the myth in terms of non-interest expenses in 2018, you came with 5% to 8% OpEx growth guidance for 19, which is above inflation even in the bottom of the range. From where this growth should primarily come in 2019? You commented about the merchant acquiring business impact in 2018. Should it happen again this year or is there anything else such as IT investments, etc.? Thank you very much.

Candido Bracher: Thank you Jorg. Two very good questions. First, on the cost of credit. Here there is no specific case, there is nothing in the horizon that we see which is not already provisioned or accounted for. So, there is no surprise here. We think this is a natural evolution of the provisions due to portfolio growth in one hand, and the mix and the balance of the portfolio in the other hand.

So, the portfolio growth, of course, demands new provisions, and the fact that we are… our mix is evolving towards credit risk individual and SMEs which have a higher probability of default, I mean, this commence according to our expected loss model, that is what drives always our forecast, this is what drives this growth in provisions.

As to the outlook for impairments, discount and coverage, I continue to expect that coverage may be lower, although our forecasts do not necessarily indicate that. But as I already said in previous calls, I mean, these levels of coverage I think they are normally high, and they are justifiable in view of the many precautionary provisions that we made for corporate credits which were severely affected in the recession of 2015 and 2016.

As the situation evolves, these credits should either default – and in this case the coverage would fall, because the provision would be used to cover its credits – or they should improve, and the provision should be reversed and also the coverage would drop in this case.

The same scene would count for impairments. I mean, in our case impairments they behave just like credit, in accounting terms it is different, but these are credits bonds that we have against this coverage. We expect recovery rates and discounts to stay flat, so with no major change this year.

Moving now to non-interest expenses, so, this projection from 5 to 8, the main cause for this is the growth in business in general. There are many advances that are tied to the level of business, to the quantity of transactions - these are variable costs -, and since we are expecting to grow significantly, costs should fall. Another important effect is the investments we have made throughout 2018 and that will bear their full weight on cost in 2019.

Jorg Friedman: Perfect, this is very clear. Thank you very much.

Candido Bracher: You are welcome, Jorg.

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

Carlos Macedo: Thanks. Good morning gentlemen, Candido, Milton, Alexsandro. A couple of questions. First, just following up in Jason's question on loan growth. Last quarter we talked… you talked about potentially increasing the risk appetite for the bank. Does the guidance that you… you know, the 8% to 11% in Brazil that you reported that you put out today contemplates higher risk appetite or is that something that could still happen, and if it could still happen and hasn't happened, what could lead that to happen?

Second question, IFRS 9 is coming, you put out thankfully - thank you - on your spreadsheet on your website the financial statements under IFRS 9. There it seems significantly more volatile than what you reported in the Brazil GAAP. You know, Candido, I don't expect you to say the exact details, but is that something that we should expect once you move to IFRS 9? What's the Bank looking to IFRS 9, is it something that is going to drive a lot more volatility in your cost of risk? Is it going to lead to charges? I mean, just a bit of color on IFRS 9. Thanks.

Candido Bracher: Okay, thank you Carlos. As to the growth in total price portfolio, 8% to 11%, I mean, this reflects not as much this, it's more the shift in the mix towards more individuals and small and medium companies, this reflects that we are open for business in the Bank. I mean, so all the credit portfolios are open, and we have appetite to grow the portfolio according to the demand we may have at the adequate costs and the adequate price for risk. So, this is, we are really, I mean, here, completely open for new transactions.

What reflects our IFRS 9, you know, we have already been accounting in IFRS 9 for some time, our provisions are already adequate to the demands of this accounting method and I think you are right, I mean, this method is more volatile. But it is the nature of the beast, I mean, there is no avoiding that, I mean…, our figures in IFRS 9 would be a bit more volatile in what concerns provisions.

I'll give it to Alexsandro.

Alexandre Broedel: Okay, if we just go back… Carlos, can you hear me?

Carlos Mollin: Yes, I can hear you Alexsandro. Go ahead.

Alexandre Broedel: Just to let you know that we already release our figures in IFRS 9 quarterly, so you can see from the past few quarters that our numbers in IFRS 9 are identical, almost identical the numbers in Brazilian GAAP. So, we already incorporated the expected loss modeling of IFRS 9 into our Brazilian GAAP numbers.

So, as Candido mentioned, the main difference is the volatility on the numbers, but we already incorporated that on Brazilian GAAP.

Carlos Mollin: Okay, thank you. Just going back, Candido, to question, you said that the bank is open for business and is that… just to understand where you are at today versus where you were before, do you believe that the posture the bank has today is different than what it was say six months ago or 12 months ago?

Candido Bracher: I didn't understand your question. Could you repeat it Carlos?

Carlos Mollin: Yes, sure, sorry, Candido. You said that the bank is open for business and what I want to understand is if there has been any shift in that posture compared to six months ago or maybe 12 months ago. If six months ago you considered the bank was also open for business.

Candido Bracher: Yes, we are more open for business than we were 12 months ago.

Carlos Mollin: Okay, thank you. Thank you Candido.

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

Philip Finch: Bracher, thank you for the presentation. I have two questions as well, please. First, your guidance for fee growth is well below that for loan growth. So, can you elaborate what challenges you are seeing in the fee business side and what measures you are taking to mitigate them?

And the second question is really to ask about your plans to…, whether you're going to issue any more AT1 hybrid instruments this year, and if so, would it be reasonable to assume that additional dividends could also be paid in the year ahead? Thank you.

Candido Bracher: Thanks Philip, two very good questions. In what concerns fees, I mean, yes, as a matter of fact, I mean, the guidance 3% to 6% is significantly below the guidance for financial margins with clients. The reason here is mainly the negative impact we expect from the acquiring business. We expect fees in the acquiring business to be lower in 2019 than they were in 2018, so they extract from the fee growth. And this is the single cause for this lower guidance in fees growth.

In what concerns AT1, we do not intend to make new issuances of AT1 in the short term. We are at a level of around 1.1% of AT1, the ceiling, as you know, is 1.5 and we like to leave some room for devaluation of the currency, which we don't want to have this expensive issuance not serving us in terms of capital needs.

Having said that, we have just issued R$3 billion and 50 in AT1 which are not considered in this 13.5% which we just announced because they have not been recognized as capital yet by the Central Bank. So, we did not consider them. And looking forward, next year, when we make the calculations again to bring the capital back to 13.5, this capital will be there and will increase the dividend payout.

Philip Finch: Okay, thank you very much, very helpful.

Candido Bracher: Thank you.

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

Eduardo Rossman: Hi, good morning everyone. I have two questions which are somewhat linked. I think the first one is on value creation and the second one is on kind of growth expectations in dividends.

So, starting with the first one, when we go to the slide 6 of the presentation, we can see that the gap between the ROE and the cost of equity is very similar to 2014 levels, but if we take into account only the Brazilian operations, it's probably the best performance you've had in quite a while, right? If you look into the gap between the ROE in Brazil and the Selic rate, I think that the gap is between 15% to 20%. So, my question is, do you think this is sustainable? What should we expect going forward?

And then my second question, which sure has kind of a link to this first one, I want to understand if it makes sense to grow faster, reinvest more your capital, even at a low ROE, if you think that the cost of capital, you know, will keep moving down.

So, my understanding here is that, with the lower cost of equity, you know, you could still generate the same value, even with the low ROE given that the risk will be lower. So, I want to understand if you think that makes sense to you, if it's that the way you look at the Bank, that's the way you run the Bank. And I am asking that because I'm trying to understand, you know, where your dividend payout can go. In 2018 you had like almost 90% payout, which is pretty high, you know, it seems that you are getting closer to your core Tier 1 target, so I want to understand as well what we should take into account when forecasting dividends.

These are my questions, thanks a lot.

Candido Bracher: Thank you Eduardo. Very good questions. Let me first start by saying that I have no payout target whatsoever. I mean, I have no orientation from the Board or from anyone about what the payout should be. The clear orientation is that level 1 capital should be 13.5 every year and the dividends in excess of this, and capital in excess of this should be paid out as dividend after accounting for potential acquisitions, or potential changes in regulatory situation that may demand more capital, or the normal growth of business. Any excess of this we should distribute the dividends.

And you are right when you note that we have been enjoying a return on equity above 20 and the cost of capital has been reducing. When I look at the cost of capital in Brazil, I see that the cost of capital in Brazil is maybe 3% - 4% higher than it is for international banks, at least for American banks, or at least from what we hear from sale side analysts and from what our models indicate. So, despite the fact that the interest rate is much higher, I mean, the cost of capital we think is already not so much higher than the cost of capital in developed markets.

How much lower can our cost of capital go? How much less can this difference be? I mean, if the cost of capital is 10 in the US, can it be 12 in Brazil, especially considering that these are long-term investments? So, I say this to say that I think there is a limit to how low cost of capital can sink in this situation.

So, the increase in value creation, which is our main north in how we establish our policies, will have to be made through growth in balance sheet, I mean, through a growth in nominal return of the Bank, in nominal profit. So, I think that this all puts us in the direction of increasing the balance sheet of growing our business as long as we can do it above cost of capital, significantly above cost of capital.

Eduardo Rossman: Okay Candido, thank you very much for your answers.

Candido Bracher: You are welcome.

Operator: The next question comes from Mario Pierry, Bank of America.

Mario Pierry: Good morning everybody. Just a quick question on your operations outside of Brazil, Candido. As we look at your profitability, clearly you are delivering ROEs about 20% in Brazil and lower outside of Brazil. So, if you can tell us first how satisfied are you with the results that you are showing outside of Brazil and if you can be specific about the countries, and what do you think, how long will it take for the profitability in these other markets to start to improve and hopefully get to the levels that you have in Brazil? Thank you.

Candido Bracher: Thank you for the question Mario. So, just to have this more clear. Our biggest operation outside of Brazil is Chile, by far. Then we have… Chile also has Colombia, which is a smaller operation, we have Paraguay and Uruguay, which are large operations for the size of the country but are not large operations when compared to Brazil, and Argentina, which is a small operation. These are our operations outside of Brazil.

Another thing that I would draw your attention to is that in Chile specifically, and also some countries in Latin America, we consider the cost of capital to be below the Brazilian cost of capital. So, we are prepared to have return on equity there which is lower than in Brazil.

To comment on each country, first Argentina is very small, we are improving there, it used to be… we used to lose money in the retail market there and now we are making some money, little money, but it's really very small to count. In Uruguay we have a mature operation, stable market share, the highest profitability in the country. I see it improving but I don't see anything transformational happening in Uruguay. I see us keeping the good position in the market we have there and improving marginally with a lot of effort.

Paraguay is a more dynamic economy than Uruguay, I mean, it has been growing over 4% every year, and we have in Paraguay, in the last quarter of this year, we have a ROE of 24%. So, it is a profitable operation, I think there we can really still improve a lot.

And then Chile. How satisfied am I? I think we have made a significant change in Chile, I mean, the results we have just released our profit for the Chilean operation and for the Chilean bank and it was US$320 million, compared to US$80 million the year before. So, I think that the bank has been really turned around there, and we are happy with that.

But since I have here by my side Milton Maluhy, who used to be the CEO of the Chilean operation until a month ago, I'll ask him to… not to say how satisfied he is, but to give you a bit more color on the Chilean operation.

Milton Maluhy: Okay, hi Mario. Just to go through a little bit about Itaú CorpBanca, the local team will make this conference call in the next few weeks, so then you can go through the managerial numbers, something that Candido here is telling you about the increase in profitability that we had locally. I think we did a very good year in Chile moving toward a 13% return on equity on tangible equity, what I think for the Chilean banks, of course the second block of the banks after the two major banks that we have there, it is a significant improve.

On the other hand, we still have a challenge in Colombia as we had anticipated, we were looking for a breakeven for 2018 and we achieved, so still not what we expect, we would like to have a profitability of course in this operation, and it should impact positively Chile in the coming years.

So, we are very positive about Chile, I think we consolidated the merge in Chile. In Colombia we still have to consolidate the profitability of the bank, but I think we are in the right direction. We have discussed and reorganized our value proposition in both countries, and we are satisfied and positive about the coming years.

Mario Pierry: Okay, that's clear. Let me ask then a follow-up question related to your appetite for acquisitions outside of Brazil. You have said in the past that the high taxes and inflation in Brazil made it unlikely that you could pursue other acquisitions. However, if we are talking about a tax reform in Brazil and we do see a lower tax rate, would that change your view for future expansion outside of the country?

Candido Bracher: No doubt it would Mario. So, this would imply, for instance, in Chile reducing the tax rate from 40 to 27. So it really makes a difference when you make calculations on the value of businesses.

Mario Pierry: All right, thank you.

Candido Bracher: Thank you.

Operator: Excuse me, if you want to ask a question, please, press star one.

The next question comes from Jorge Kuri, Morgan Stanley.

Jorge Kuri: Hi, good morning everyone. I calculated the midpoint of your guidance range. Net income growth of 11%, part of it due to the lower taxes, the operating income level I'm getting to around 7% earnings growth. So I wanted to ask you how would you characterize that 7% relative to what you think you could do over the long term, you know, ROE halfway, the recovery is it almost there? How do you think on a fully recovered economy your earnings growth should trend over time, and again, how is this compared to that?

That's my first question. Second is if you can be a bit more specific about the guidance on commissions and fees, which you said is low because of the acquiring business. What do you expect ex-acquiring? If you can help us with that, what is happing with the asset management business, investment banking business, and, you know, all of the rest of your fee products? I, you know, granted the level of disruption that we're seeing there is not as significant as in the acquiring business, but I just wanted to see what trends you're seeing there. Thank you.

Candido Bracher: Thank you for your question, Jorge. Listen, your first question is difficult, I mean, how do I see earnings growth going forward beyond 2019. But I am seeing things under the assumption that the pension reform be approved, which means saying that we will stabilize the relation net public debt over GDP. If this is the case, then we should be able to remain with a low inflation for a longer period of time, interest rates could be even lower than they are, and I think that Brazil, which is our main market, would see sustainable growth well above this 2.5 figure which we forecast for this year.

With this scenario in view, I think that the levels…, the level of earnings growth that we're seeing this year is pretty sustainable and could even be increased. I think it is a very positive scenario for the country. I mean, I think the idea that you have a stable low interest in Brazil can make a very significant change in the behavior of economic actors in general. Of course, it would also bring more competition, it would bring a reduction in some specific margins. So, all the things that happen when a virtuous cycle is in place. But I see this as very positive for our business, without mentioning the efficiency gains which will come from technology advances. I mean, we are already… I mean, implied in our guidance for this year, we are already improving our efficiency index in almost 1% despite the increase above inflation in costs, and I think we could improve it even more with all the investments which we are making in technology.

Now coming to your second question, I think that if we don't take into consideration the drop in fees from the acquiring business, we could be at least 1 point above the range which we have given you from 3 to 6.

Jorge Kuri: All right, thank you for your answers.

Candido Bracher: Thank you.

Operator: Our next question comes from Marcelo Telles, Credit Suisse.

Marcelo Telles: Hello gentlemen. Thanks for your time Candido, Milton and Alexsandro. I have a couple of questions. The first one, I was wondering if you could give a little bit more clarity regarding your NII growth assumption for 2019. I mean, when we look at both altogether the margin with clients and the treasury margin, you are growing almost 10%, or you expect to grow almost 10% your NII at the midpoint of your guidance, and if you look at the 4Q and we look at the carry into 2019, we are talking about roughly 2% growth. So, compared to some of your peers you do seem to have, you know, a much more optimistic expectation regarding NII growth. So, what are you seeing there? I mean, do you consider any potential pressure on credit spreads or you think, you know, you really don't see that happening anymore since you have adjusted, you know, your portfolio already? And are you seeing any potential gains on your funding side as well? So, if you could explore, you know, that number which, at least to me, it did surprise on the upside, that would be great.

And my other question is with regards to your excess return. I know there are some questions already related to that, right, but currently, you know, your excess return is quite high compared to, you know, to some of the previous levels. And despite all the competition and potential pressure on credit spreads you feel confident that you can maintain, you know, that sort of excess return at least like in the short to medium-term? Is there a fair assessment?

Candido Bracher: Thank you for your question Marcelo. First on NII, you mentioned optimism. As I said, all our guidance here is based upon the approval of the pension reform and a scenario in which the Brazilian economy grows between 2% and 2.5% this year. So, this prevails in all the items of our forecast. This is the optimistic part, if you will. The rest there's more mathematics than optimism.

So, in financial margin with clients, the main explanation for the growth in financial margin with clients is a technical fact, which is the fact that the balance, the average balance in 2019 will be significantly higher than it was in 2018, which was, to compare to the first quarter of 2018 or so, this was not the case in the previous year. In the previous year we have grown concessions in credits very vigorously, but it took us a long time to replace the credits which were paid.

And so there was no growth in average portfolio in 2018 or 2017, and we expect a significant growth in average portfolio this year. This explains more than 50%, much more than 50% of the change in margin, and it also applies… and these volumes, they also refer to the volumes in liabilities, not only in assets. Besides that, there is this effect of mix, I mean, of moving from credits with a lower probability of default to credits of higher probability of default, but with a higher margin. As I mentioned before, I mean, we are paying the price for this extra growth in our cost of credit line, that grows accordingly because of this change in mix.

So, I think this line of financial margins with clients is very much in line with the whole forecast. I don't think this line is more aggressive or more difficult to make than the rest of the other lines of the guidance which you see.

Then, you made a question about excess return. We live in a very competitive environment in Brazil. You see how our competitors, I mean, behave and how we are fighting for market in every market and so on. I think that what drives our ability to show these good returns is how able we are to compete. So, the results will be sustainable if we can keep our competitive stance in the market, and we are investing a lot and working hard to be able to make it, an even to improve it.

So, yes, I think these returns are sustainable. Of course, as in a previous question made, if the cost of capital is significantly reduced, then there will be a general trend to reduce margins and maybe the nominal returns may suffer. But we are not seeing that yet and we are confident that we are able in the foreseeable future to maintain this return on equity.

Marcelo Telles: That's very helpful Candido, thank you very much.

Candido Bracher: Thank you Marcelo.

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

Domingos Falavina: Thank you Candido, Alexsandro, Milton and the team, Gustavo as well, for also taking the question. Mine is just more regarding the expense side. We noticed one of the competitors peers a little bit more over investment project I guess, more than Itaú, and I was just wondering which lines exactly do you intend, or you are assuming branch expansion, is this more like on which product line, even more IT-driven, back-office? Just to understand a little bit more what Itaú has in mind as far as, you know, where to deploy the expenses.

Candido Bracher: If I understood your question, you're asking about our costs, right?

Domingos Falavina: Yes.

Candido Bracher: The most important part of the cost increase is tied to volumes. These are variable costs which vary as the volume of transactions increases. There are different types of costs, but this is the main thing. So, since portfolio is increasing 8% to 11%, since the financial marketing is increasing to 12.5%, I mean, this all drives an increase in non-interest expenses higher than inflation.

Besides that, there were two types of investments last year which were made throughout the year and that this year will bear the full impact of this costs. And these were mainly hiring people, hiring people to distribute the acquiring products, and this is what led us to stabilize our market share in the acquiring business last year, and this year we bear the full cost of this new hires, and in our project in the insurance activity where we are distributing third-party insurance, so we also hired many insurance specialists who are now sitting in our branches, I mean, in many of our branches.

So, I would say these are the three main items of the cost increase. Important to mention that despite this cost increase, our efficiency index will improve by almost 1% according to our guidance.

Domingos Falavina: That's very clear Candido, thank you very much.

Candido Bracher: You are welcome Domingos.

Operator: The next question comes from Natalia Corfield, JP Morgan.

Natalia Corfield: Thank you for the question, and I have actually one question on issuance, and I apologize if it has already been asked as I joined the call a little bit later. I'm curious to know about your views on the international capital markets, and this because you placed a local AT1 very recently, I think at the beginning of January, at a very good price, and importantly, it was a well below the levels where your AT1s are trading internationally. So, I am wondering if this means that you guys are not planning to access the international capital markets in 2019, if you are going to be focused on the local markets given the liquidity that you have there. If you could give color on that, I would appreciate. Thank you.

Candido Bracher: Thank you for your question, Natalia. Yes, as a matter of fact, we are very satisfied with the issuance we made earlier of R$3 billion in the local market. I mean, we have identified a significant pocket of demand in the local market and an opportunity to do this since we still have some room to issue AT1. This room is now much smaller, I mean, we have 1.1% of AT1 issued, as you noticed the ceiling is 1.5%, but we have to account, to leave some room for currency devaluation. Since a significant part of our AT1 is denominated in dollars, if there is a currency devaluation it will grow in percental terms and we do not want to run the risk of having idle AT1 because it's a product too expensive to have it title in our book.

So, I'm not foreseeing going to the market in the near future, we are not needing it and I think it will be some time before we get to the market again. We are in very comfortable levels of capital presently.

Natalia Corfield: Right, so in terms of AT1, I understand that you already accomplished what you wanted. But what about other types of issuances, like even a senior? Would the international market be a consideration or not at all because you have… you can have it very cheaply in the local market?

Candido Bracher: No, I wouldn't say that, I would say that we are always looking at the markets and if there is a good opportunity of tapping international markets and if we see demand for our paper internationally and we see demand for the credit in Latin America, there is no reason why we wouldn't do with.

Natalia Corfield: Right, but in terms of pricing nowadays, which one is better for you, internationally or local?

Candido Bracher: Still local markets, they still look better for us.

Natalia Corfield: All right, okay. Thank you very much, that would be my questions.

Candido Bracher: You're welcome.

Operator: The next question comes from Nicholas Riva, Bank of America.

Nicholas Riva: Hi, thank you very much Candido for taking my question. Just one on capital. We saw an important drop in the level of common equity Tier 1 after the additional dividends and interest on capital, now it's 12.5. I believe that in the past you have said that your target was around 12% for this AT1. If you can confirm if that's still the case and therefore, we could assume that you're basically done in terms of dealing back your interest capital. Thanks.

Candido Bracher: I'm not sure I understood your question, but if I think I understood it, I mean, we want to have 13.5 of level 1 capital, out of which, as much as possible, of AT1. So, up to 1.5% of AT1 and at least 12% in core capital. This is, I mean, what our risk appetite expresses, expressed by our Board indicates. So, clearly, we come back to this level as we are coming back now to the level of 13.5%.

Nicholas Riva: Okay, thank you.

Candido Bracher: You are welcome.

Operator: As a reminder, if you want to pose a question, please press star one.

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

Candido Bracher: Okay, so thanks everybody for participating and for the very good questions. We look forward to the next calls, when we expect to materialize the guidance which we provided now. 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.