Itaú Unibanco Holding S.A.
International Conference Call
Fourth Quarter 2017 Earnings Results - February 6th, 2018

Operator: Good morning ladies and gentlemen, welcome to Itaú Unibanco Holding conference call to discuss 2017 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. 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.

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, **Mr. Alexsandro Broedel Lopes**, Group Finance Director and Investor Relations Officer.

First, **Mr. Candido Bracher** will comment on 2017 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 and thank you for listening to our 2017 earnings conference call.

Before we go into our key financial figures and performance, I would like to spend a few minutes on **slide 3** to talk about our medium and long-term strategic agenda.

As you may remember, in previous quarters we outlined six objectives in order to increase the value creation to stakeholders. In this quarter, we have segregated those objectives into two groups: the transformation group and the continuous improvement group. When we talk about transformation, we refer to: client centricity, digitalization and people management. These are aspects that we believe we need to truly transform within the organization.

When we talk about continuous improvement, we are referring to risk management, internationalization, and sustainable profitability. These are aspects that are broadly embraced by the organization, but that we should continuously strive to improve. And permeating and enabling all those objectives are our corporate governance and sustainability.

Corporate governance, as you know, plays a vital role in enforcing stakeholders' interests and is key to achieve long-term sustainable growth. It is embedded, not only on the objectives we disclose here, but also in each part of our daily business activities, from remuneration taxes to risk management.

Our view on sustainability is that it needs to be fully integrated with our business in the operational aspects and also in the commercial ones, making environmental and social issues part of our everyday activities. Its variables need to be incorporated and measured into each of our diverse processes, such as credit granting, investments, insurance activities, contracting of suppliers and wealth management.

We will revisit this agenda annually and update you on recent developments since the season multiyear agenda. Nevertheless, we are always available to discuss it in our interactions during the year since we see this agenda as a fundamental test of the management team. I will be happy to answer questions on this agenda as well at the end of the call.

So if we move to **slide 4** now, here we highlight the key performance figures from our fourth quarter results and also for the full year of 2017. We have posted a R$ 6.3 billion of recurring net income in the quarter. For the full year, our recurring net income was R$ 24.9 billion, which resulted in an increase of 160 basis points in our recurring ROE, which reached 21.8% in the year.

Although we could deliver earnings and returns expansion in the year, 2017 was a very challenging period with declining rates, credit growth still lagging and lower overall volumes and transactions in the economy than we had originally expected. You all remember, I mean, the political events in May, which somehow frustrated the recovery which we were seeing then.

Nevertheless, we ended the period on a good note with unemployment rates already going down, inflation under control and overall activity in the economy slowly but steadily improving. And when we take a more detailed look at our results, they are a direct reflection of this environment and also of successful implementation of our strategy. Therefore, we have presented lower financial margin with clients, mainly due to the impact of the lower Selic in our liabilities margin and remuneration of our capital, and also due to lower credit volumes. These lower financial margins were more than compensated by lower delinquency ratio, which, in turn, led to a substantial decline in the cost of credit, and also by the increase in commission and fees and strict cost control, which led our non-interest expenses to grow way below inflation.

I'd also like to remark that our Brazilian operation continues to be the main driver behind our earnings growth, with an increase of 13.5% of its recurring net income in 2017.

Finally, I’d like to make some comments about our Latin American operations. The results for 2017 showed a contraction of 13.6%. This is mainly due to the performance of Itaú CorpBanca. As I mentioned in the previous quarter, we saw a more difficult-than-expected macroeconomic scenario and the natural challenges of a merger this size, impacting the profitability of this operation.

Nevertheless, I'd like to highlight that we see operational improvements with a good evolution on the integration of our clients, branches, systems and teams. We are working to bring gradually the profitability of the operation to the levels we believe it can deliver sustainably.

Moving to **page 5** now, we show here the evolution of our net income and ROE over the past eight quarters. When we focus on our recurring figures, you can see the sustainable evolution of our net income and ROE over the last 2 years.

On **slide 6**, we present our business model chart. In this chart, as you remember, we break down the consolidated income statement between income earned in operations that bear credit risks (including its rated fees), income from trading operations, income from insurance and services and excess capital.

Although the insurance and services business lines continue to be the main driver behind our value creation - and this is in line with our objectives, this income represents 54.1% of the total recurring net income -, I'd like to highlight with pleasure that the credit business created value for the first time since 2014. You can see here on the second column, I mean, the credit business with an ROE of 14.3%, which is above the cost of capital (we now estimate our cost of capital to be at 14%) and it has created in the past year R$ 100 million of value for the first time in a long period. We expect this trend to be a sustainable one for the coming periods.

On **page 7**, we look at our credit portfolio, and here we notice satisfaction that the total credit portfolio resumed growth this quarter, with a 3.2% increase in the period, and this growth was mainly driven by our individuals' portfolio and also by our very small, small and middle market loans. For individuals, the credit card portfolio grew 10.3% in the quarter, helped by seasonal effects, but also by higher economic activity and increase in our client base. Also notable is our car financing book, which posted a 1.4% increase in the quarter. This was the first increase in the car financing book since December 2011. The increase in demand for credit and retail, and also in the small and medium companies allows for positive expectations regarding portfolio growth in 2018.

On **slide 8**, we present our net interest margin and also the impacts in our fourth quarter financial margin with clients when compared to the previous quarter. Our gross net interest margin contracted 20 basis points, as a result of the lower Selic rate and its impact in our liabilities margin and our own working capital. These effects were partially compensated by structural operations in our wholesale bank and by a change in our credit mix to our higher yield in products.

On **slide 9**, we talk about our margin with the market. We had a positive quarter, with an increase of 5.3% when compared to the third quarter, and we reached in the year R$ 6.3 billion, a decrease of around 10% on a year over year comparison. As we had anticipated in previous conference calls, this decrease is related to the lower Selic rate impact in our assets and liabilities management and we expect this trend to continue in 2018.

Moving to **slide 10**, credit quality. Here we see an improvement in our delinquency ratios, both in the nonperforming loans 90-days and in the nonperforming loans 15 to 90-days. The improvement in our total NPL 90-days continues to be driven by better credit quality ratios in our individuals and SMEs portfolios in Brazil. On the 15 to 90-days NPL, we also see improvements in the quarter led by individuals and SMEs portfolios in Brazil, which reduction was more than enough to compensate the usual volatility in the corporate segment, which in this case is due to a single name, for which we already have provisions.

The NPL 90-days of our Latin America operation presented a 10 basis points increase, mainly in the individuals' portfolio, both in Chile and in Colombia.

On **slide 11**, we present the evolution of our NPL creation. Our total NPL creation decrease for the fifth consecutive quarter and reached its lowest level since March 2014. This improvement was led by a significant reduction in the NPL operation for the retail banking portfolio in Brazil.

Now, on **slide 12**, we present the evolution of our provisions for loan losses and cost of credit. We had a small increase this quarter from 3.6% to 3.7% and it's mainly related to two different events: the first one relates to a few corporate clients in Chile, that we do not expect to be repeated in the next quarters; and the second relates to January provisions resulting from the growth in the individuals' portfolio in the quarter in Brazil.

On **page 13**, we show our total allowance by type of risk, remaining quite stable at the level of R$ 36.7 billion.

Now we come to **page 14**, coverage ratio. And here, once again, I am bound to explain why it is so high and why it is not reducing fast. Although we are convinced that it will go down over time, this movement may take a while. As I have explained in previous quarters, the current high-level of our coverage is a result of the growth of the renegotiated portfolio, which occurred during the years of the economic recession. These renegotiations they provoke a lengthening of the recovery period and therefore they require us to carry provisions for these exposures for a longer period.

As mentioned in the past, what will cause this rate to drop is one of two things: either the companies for which we have made precautionary provisions actually default and these provisions are moved to the regulatory provisions, so the nonperforming loan rate increases and the coverage ratio decreases, with no impact in our results - because the provisions are already there -; or, on the contrary, these companies for which we have precautionary provisions they improve and we are able to revert the provisions. In this case, also the coverage ratio decreases and with a positive impact on our results.

However, in the short term, it may happen that none of these two things materialize, neither the companies default, nor they improve to a point in which we can reverse the provisions. And if we couple this with the continuous decrease in the 90-day NPL, we could even have a temporary increase in the coverage ratio. This is what's been happening in the past quarters.

On **slide 15**, we see that provision and fees increased 5.2% in 2017 when compared to the previous year. This growth was mainly led by the good performance of our asset management fees, in line with the solid growth of our assets and the management in the period, and also by the advisory services and brokerage fees (investment banking), where we saw a 38% growth, mainly related to our M&A performance, debt and equity capital markets, which were quite active throughout 2017.

On **page 16**, we look at our non-interest expenses, and comparing with the year ended in December 2016, noninterest expenses increased only 0.3%, way below the accumulated inflation for the period. This, we think, is a reflection of our digital strategy and our efficiency approach.

Now on **page 17**, we talk a bit about payout. I'd like to remind you of what we divulged in September concerning our payout practice. In September 2017, we announced changes in our capital management practices aligned with our value creation strategy. First, we excluded the maximum payout limit, that used to be 45%, and maintained the practice of paying dividends and interest on capital of at least 35% of net income. Second - and this is more important -, at the beginning of each cycle, we will make an analysis taking into consideration the forecast for results in the period, the minimum level of Tier I capital, which must be at 13.5%, and also the expectations of capital usage based on business growth, share buyback programs, mergers and acquisitions, and regulatory changes that may change capital requirement.

Therefore, the percentage to be distributed may change every year based on profitability and capital demands. So, the percentage of capital distributed, just to make it clear, will be the necessary distribution to keep the core equity Tier I level at 13.5%.

It is important to highlight that: first, we do not intend to have capital surplus in excess of this level of 13.5% without the prospect of using it; and any possible surplus will be returned to our stockholders.

Consistent with that, we move now to **page 18**, where we see that we finished 2017 with a common equity Tier I capital ratio of 15.5%, already on a fully-loaded basis that has been anticipating all Basel III effects. Now, if we consider the additional of our… the approval of the additional Tier I we have just issued, and the capital needed for the acquisition of a minority interest in XP Investimentos, our Tier I capital is 15.3%. So in order to bring our Tier I capital to the ratio desired of 13.5%, which is the minimum level set by the Board, we will pay on March 17 an additional dividend of R$ 13.7 billion.

On **page 19**, we see how the payout practice and our capital management impacted our shareholders remuneration. So, in 2017, we will have distributed to our shareholders R$ 17.6 billion as dividends and interest on own capital, and R$ 3.1 billion through the acquisition of our own shares. This all added together represents a payout ratio of 83%. This payout ratio translates into a dividend yield of 8% in average in 2017.

So, coming now the **page 21**, we look at our… sorry, I jumped one page. **Page 20**, first. On page 20, I will compare our 2017 forecast to what we actually delivered, and I will focus the analysis on the consolidated figures on the left.

So, starting with our credit portfolio, we ended the year below the forecast since the growth in the fourth quarter was good, but it was still insufficient to reach the bottom of the guidance. So we were 0.8% below the bottom of the guidance, which was 0.

Our financial margin with clients was also below the forecast range as a result of the lower credit growth in the year, besides the fact that Selic rate was even lower than we had anticipated. So here, I mean, we had a reduction of 4.7% when the bottom of the range was 4.2%.

For cost of credit as mentioned, last quarter we ended the year around the top of the range, slightly below the top of the range, at R$ 17.9 billion.

And then there are two items here where we missed our guidance, but we missed for the better. So this is why we painted it with blue here instead of with red. For commissions and fees and result from insurance operations, we grew 5.2% and finished the year above the top of the range mainly due to the strong fourth quarter in fees, which, in turn, was a result of the increased economic activity seen in the period.

And to finalize, noninterest expenses we had an increase of 0.3% in the year, which was a performance better than expected and below the bottom of the range, which was at 1.5%.

Now coming to **page 21**, to our forecast for this year. So, I will also focus on the consolidated figures here. For the credit portfolio, we expect a growth between 4% and 7%, which should translate in a range between -0,5% and +3% of our financial margin with clients. We expect the financial margin with the market to finish 2018 between R$ 4.3 billion and 5.3 billion.

Our cost of credit should continue to decline, and we expect it to and 2018 between R$ 12 and 16 billion. Our commissions, fees and results from insurance operations, our forecast is a growth of between 5.5% and 8.5%. We expect to continue delivering our non-interest expenses growing below inflation with a range between 0.5% and 3.5%. Lastly, we expect our effective tax rate to be between 33.5% and 35.5%.

So, with this I conclude the presentation and we can go now to the questions you may have.

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 Tito Labarta, Deutsche Bank.

Tito Labarta: Hi, good morning. Thank you for the call. A couple of questions, and particularly on your guidance. First on your margins, it does indicate a slight margin compression this year, but just to understand, when do you think that the margin compression will be… or when will you have realized the impact of lower interest rates completely? In other words, when do you think the margin stops declining?

Then second question is regarding provisions, you know, further improvements this year does indicate the cost of risk could likely fall below 3%. How sustainable do you think that level is? I mean, does that include… or does that factor in maybe some working asset when you negotiate a loan, which you mentioned which could improve the coverage, does that not affect …? So I'm just trying to get a sense of the sustainability of the cost of risk at these levels, you know, beyond this year. Thank you.

Candido Bracher: Thank you for the question, Tito. So, first, on margins. So, we believe we may still have one or two reductions in the Selic rate this year, one this week for another quarter percent, and maybe one next month. I'm not so sure about this second one. The one this week looks a bit more probable of happening. So, when this process is over, I think it will still be maybe a quarter until the full impact of the interest rate reduction is felt on the margin. Of course, I mean, as I said in the guidance, we expect this effect, which is mainly on our liabilities margin than in the credit margins, this effect of the lower Selic, we expected this to be compensated by a growth in assets, which will increase the margins.

Now, your second question on provisions and how sustainable this is, I mean, the reduction and the cost of credit below 3%. I think it is sustainable. Of course, I mean, this year we may have some help in a moment or other of clients for which we have already provisions and in which companies may recuperate. But we also have still negative effects this year from the large renegotiated portfolio during the crisis.

I mean, when I remember the normal years, I mean, before the crisis of 2015 and 2016, I think, I mean, we had cost of credits around this level which we are forecasting. So I expect this to be a sustainable trend in normal years.

Tito Labarta: Thank you. It's very clear, Candido. Thank you.

Candido Bracher: Thank you.

Operator: The next question comes from Jorge Kuri, Morgan Stanley.

Mr. Jorge Kuri?

Jorge Kuri: Yes, hi. Good morning everyone. Let me do a follow-up on the question on provisions. The range on the guidance is quite wide, there is like a 33% gap between the low and the high end, which is almost 2x the range that you had in 2017. So, I'm trying to understand what is it that you're thinking on both sides? What macro conditions and operating conditions would lead you to that 12 billion? And the same goes for the 16 billion. That's my first question.

Candido Bracher: Okay, thanks for your question, Jorge. I mean, as a matter of fact, I mean, it appears a bit more difficult to forecast the provisions this year than it was last year. Of course, it's always easier to speak, I mean, after the fact. This year the main facts which provoked volatility in the provisions, beyond the normal effects of economic activity and how this may affect the individuals' portfolio, is still related to the corporate portfolio. We have a large renegotiated portfolio on the corporate and, I mean, there are companies which can improve and provoke a reversion in their provisions, and there are others which have renegotiated credits and are still in a difficult situation and that may be coming arrears and so on, and thus even requiring more provisions.

So, I mean, this is what causes the volatility and has indicated to us this interval, which you correctly point out that is larger than it was last year.

There is another effect also, which is just as important as this large client portfolio, which is how much our portfolio will grow, I mean, between 4% and 7% growth, it will mean a very different need to make new provisions for the growing portfolio. This also impacts our forecasts.

Jorge Kuri: Thank you, Candido. My second question is on spreads. There was a relatively good ability of the banking system to defend spreads last year in the face of falling Selic rates, and that probably had to do with the lack of competition and then just your desire to try to offset some of the negative pressure on your securities portfolios as rates came down. As we move now a year into, you know, having lower rates and then you start to get a little bit more competition, the credit market start to pick up, customers start to ask for lower spreads given the rates are now low for long, what is your expectation on the credit spreads throughout this year?

Candido Bracher: Okay. Thanks Jorge. As you see in our… saw in our charts on business model, on page 6, we have last year barely made our cost of equity in the credit activity. So, I mean, despite the fact that we are defending our spreads, only now the credit activity has been able to create value. So, I think this is a natural factor in resisting a pressure to lower spreads, I think what's true for us is true also for our competitors. I think no one is making a return much above cost of capital in credit.

And what we have seen is relative stability in credit spreads. We believe that there will be some increase in demand and this will also help to support the spreads around the level they are today.

Jorge Kuri: Sorry, Candido, the connection is not great, so you said you expect credit spreads to be flat this year?

Candido Bracher: Yes, I expect them to be flat this year.

Jorge Kuri: All right, great. Thank you.

Candido Bracher: Thank you.

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

Philip Finch: Good morning and thank you for the presentation Mr. Bracher. Two questions from me, please. The first is regarding the competitive landscape, if you could just give us an update on that. And would you say the outlook still looks benign or are you seeing signs of rising competitor pressures, and if so, in what segments?

And possibly linked to this, are you seeing any signs of disruption with increasing technological advancement in Brazil at the moment?

And the second question is slightly related to this, can you give us an update of your digital offerings, what percentage of your customer base is now using digital mobile banking, and does this pave the way for more branch closures? Thank you.

Candido Bracher: Thanks for your questions, Philip, they are broad, let me first talk about competitive landscape. I mean, we have never seen much ease on the competitive landscape, I think we have always lived in an intense competition in Brazil with the banking systems, in some areas more competition than in others, but in general I think it's quite a competitive market and we expect it to remain this way in 2018, and we are not seeing this becoming neither tougher nor easier for the year.

Any signs of disruptions, you asked me. I mean, there are always news here and there and we see new companies appearing with new products every day in many parts of the market, I mean, this is the case of XP in discount brokerage, which we acquired, we are in the process of acquiring a 49% stake, this is the question… this is also the case with some companies in the acquiring business, you've just seen the IPO of PagSeguro in this segment. But I don't think these are disruptive companies, I mean, this is more competition in markets where we already operate with different strategies. But of course, we are seeing here in the market every day, I mean, news of new products and more use of digital products.

In our case, I mean, there are many numbers you can use to talk about digital, even if you refer to our own bank. A number which is simple to memorize and we always say it that, I mean, 80% of the transactions that customers do with the bank are through mobile or Internet.

Of course, when we look at this figure, it indicates a better picture than the one we actually have, because not all of the transactions which the client do digitally with the bank they go digitally end-to-end in all the processing. So, our efforts now are very much geared towards digitizing more and more our operations area, our back office.

If I can quote to you some other important figures here, we have over 2 million clients in our digital branches, and this digital - over 2 million account holders in a total of 18 million account holders -, and these branches have a 20 to 30 percentage points, they are more efficient than the normal, the regular brick-and-mortar branches.

And there are many other figures I could quote to you here, I mean, 9.5 million users using mobile bank line and SMS, and things like this, but, I mean, the picture doesn't… the picture is the same with all the figures I give. So, I mean, an intense effort to digitize. In the first page of the presentation, I mentioned our strategic goals and the transformational ones. And one of the transformational one is exactly our digital strategy, which has been the object of intense attention of the executive committee here.

Philip Finch: All right, thanks Mr. Bracher. So with the impressive improvements in digital, do you expect to see more branch closures going forward?

Candido Bracher: Not immediately. We have closed 280 branches in the past two years. When we analyze now, looking forward, we didn't find many branches below the line in which we consider a branch economic, and this is mainly because branches are still very important in opening new accounts. So, what we are studying very intensively here is the new uses of branches, is how to transform our branches to adapt them to the new times. This is taking more our attention then the push to closedown branches.

Philip Finch: Okay, thank you very much indeed Mr. Bracher.

Candido Bracher: Thank you.

Operator: The next question comes from Jason Mollin, Scotia bank.

Jason Mollin: Hi, thank you for the opportunity to ask the question. My first question is on your business model breakdown and the… looking at the returns by business segment. And, yes, it is, as you mentioned, the first time we're seeing value creation in the credit portion of the business. Looking at how you analyze that in this line, again, it looks like you're calculating the cost of equity very close to that return, because the value creation is slightly positive, or my calculation is about 14.1%, and then overall in the consolidated basis for the year, if you just take the regulatory capital in the value creation, it looks like you're calculating the cost of equity close to 14.9% - 15%. And that is a little higher, it's interesting if I take the nine-month figure that you gave us after the last quarter adds up a little bit from 14.6.

I'm just wondering what that reflects, if that reflects a higher cost of… it looks like it's coming from a higher cost of equity in the trading side to the end of the year. So I'm just trying to understand, I would've thought with lower rates that might not be the case, it might actually be lower. That's my first question.

Candido Bracher: Jason, your question is correct, you are very observer. As a matter of fact, we have internally three costs of capital. We have a main cost of capital, which we use for almost everything and is the one we use for credit. Then we have a cost of credit which we use specifically for operations bearing market risks, for trading, which is higher than that cost of credit. And we have a cost of credit we use for service operations, for operations we have nor credits, nor market risks, and this is a cost of credit slightly below the average, which is now 14.

Jason Mollin: And would you consider this cost of credit in the current environment given where the Selic is and given where the 10-year government bond is? Is this where… you think this is on the low end, have we reached… looking out for the next year or so, is this kind of where you think it will remain?

Candido Bracher: Listen, the 14% I refer is the cost of credit at the end of the year. Today is already 13.5. We have reduced it in our last Board meeting last week. We think it is coming close to the best point in the curve, I mean, when we compare the cost of credit in Brazil to the cost of credit we see you analysts using in developed markets, we think it's not likely that the spread will narrow much further than it already is.

Jason Mollin: That's helpful. And my second question would be on the regulatory outlook or potential changes. We saw a shift from credit card loans with all the credit cards pushed to move those into installment credit. Are you anticipating any other changes that could materially impact your results?

Candido Bracher: Listen Jason, these changes on credit cards they effectively impacted our results and the effect on 2018 will be a bit bigger than 2017 because they were not there for the full year of 17, some of them have started in April, some of them have started in August 2017. So, in 18 we will have them for the full year.

There are some discussions ongoing with the Central Bank concerning overdraft and there is a self-regulation in this by the banks, and this self-regulation, I mean, it may lead to some reduced usage of overdrafts, but it is too soon to tell.

Jason Mollin: Thank you very much, Candido.

Candido Bracher: You're welcome.

Operator: Our next question comes from Rafael Frade, Bradesco.

Rafael Frade: Hi, good morning everyone. I have a follow-up question on the provisions for guidance. So just to be more clear, so it's reasonable to expect, given all that you mentioned, Candido, that eventually we will have provision expenses below the NPL creation for the year, given that you have already some cases that were provisioned even in 2017 or even 2016? So how we should expect this evolving throughout the year?

Another question would be related to fees. I was a little surprised with… it seems a little strong to me. If you could give a little more visibility about here, if is there any specific line that maybe will lead for this growth would be very helpful.

Candido Bracher: Okay, thanks for the questions Rafael. If I understood well, your first question regarding provisions you asked me “is it possible that you your total provision will be below NPL creation this year because some credits are already provisioned for”?

Rafael Frade: That's right.

Candido Bracher: I think yes, it is possible. I don't think it's certain. If a counter… if a reflection on that will be our coverage ratio, what I can tell you is that we do not expect significant changes in our coverage ratio this year. So, it will go down a little bit, the coverage ratio of course, as I said in the slide, but it's not a significant change. So, I think, yes, you are right, I mean, it is possible that we have the provisions this year below NPL creation.

Your second question on fees, let me just go here to our fees forecasted… it’s here. So, we are forecasting a growth from 5.5% to 8.5% in 2018 after having shown 5.2% in 17. I don't think this is such a difficult increase, it seems… during the year 17 we saw a constant improvement in this trend, which we expect to continue during 2018. Of course, 2018 is an election year, so specifically for the investment banking fees, I think that the second semester may lag a bit. But as for all the other fees, I mean, asset management, cash management and so on, we are seeing increasing demand, which is consistent with this forecast.

Rafael Frade: Okay, that's perfect. Thank you, Candido.

Candido Bracher: Thank you, Rafael.

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

Eduardo Nishio: Hi, thank you. Thank you for the presentation. My first question - I have two - is related to your financial margins with clients. If you can give more color on how you want to achieve. Basically, you have a positive range and we see some peers with negative guidance for 2018. Obviously your credit growth will help, but, you know, looking to your peers also they have the same range, positive range for this year. So if you can break down a little bit and give us a little bit more color on how you can achieve that positive range, I’d appreciate that. Then I have my second question.

Candido Bracher: Okay Eduardo. I don't have much to add to what you already mentioned, I mean, our today improvement in financial margins with client is a direct consequence of the improvements in total credit portfolio. Being that we expect credit portfolio to grow more in individuals and SMEs than in large corporations, and as you know, individuals and SMEs carry a better spread than large corporations.

Eduardo Nishio: Okay. The Citibank also helps there? I mean, the growth?

Candido Bracher: Yes, the Citibank also helps the growth, but it's very small.

Eduardo Nishio: Okay. And then my second question relates… and sorry to go back to the cost of credit and your provisions outlook. Your fee reaching a historical low now, you know, provisions over your loan portfolio of 3.7, historical low, also your cost of credit also historical low. You know, just give a ballpark number of how much you think it can normalize? Is it far beyond this 2.9, or it's around that number, you know, more color here I think it would be greatly appreciated. Thank you.

Candido Bracher: Okay Eduardo. I don't have the full series of our NPL here with me, but I don't think this is a historical low. If I come back to the years before the crisis of 2008, I think we had much lower, way lower figures than…, 2003, 2004 and 2005. But I can't affirm this because I don't have these figures here with me. Having said that, I think it's a different environment today, it's a different thing, we see this level of 2009 - 2008 a level around which we can stabilize the cost of credit.

Eduardo Nishio: Okay, thank you.

Candido Bracher: Thank you.

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

Carlos Macedo: Good morning Candido, thanks for taking questions. First question, I just wanted to get an idea, you said that you expect spreads to remain steady through the year. If you can talk a little bit about qualitatively about the spread on your front book in your back book. So, the spreads which you are originating loans now compared to the spreads that were on your books one year or two years ago, how does that relate? Are they lower now? I mean, it helps just to get an idea work it up and going forward as you are generating more loans, and in an environment with a lower benchmark rate.

The second thing, again, I'm sorry, much like Nishio before, to go back to this question, I'm looking at the historical loan loss provision to average loans, the cost of credit and it never did below 3, you know, going back to 2004. So the question is: is this, again, how sustainable this is? Is this a factor of you using part of your excess reserves to offset some, you know, some of your clients' request demanding more coverage? How should we think… I mean, you talked about the coverage ratio not going down, so is that really just mean that your asset quality is going to stay very solid the whole year and improve throughout the year as expected? I mean, how should we think about this overall given the big picture of Itaú and the mix of the portfolio now?

Candido Bracher: Thanks for your questions, Carlos. Let me first go to spreads. If I compare the spreads we are using today with the spreads of two years ago - which were during the crisis -, for the same types of credits the spreads are possibly a bit lower today than they were two years ago.

Having said that, we must see that we are changing the mix of our portfolio, we have been changing the mix of our portfolio, and in this sense, I mean, we have been reducing the portfolio in the large corporations, where the spreads are lower, and increasing in individuals and SMEs, where they are high year. I mean, this movement in the mix, I think that may more than compensate the reduction in the same line of spreads.

When we talk about loan loss, we will also come back to the mix a little bit to explain how this can be different now, and, I mean, since then, since many years, we had, I think, a very consistent evolution in our risk appetite and in our risk tools, and in our credit models, more recently now, especially for retail. So, I would… I mean, I think this allows us to expect lower cost of credit than the average before.

Carlos Macedo: But just, sorry to follow-up, wouldn't it make sense if you're shifting the mix to improve your margins that they will have an impact on your cost of risk as well?

Candido Bracher: Yes, that's true, but I think that the improvement in the quality of the credit instruments more than compensates for that.

Carlos Macedo: Okay, thank you Candido.

Candido Bracher: Thank you.

Operator: The next question comes from Carlos Gomez, HSBC.

Carlos Gomez: Hello, good morning. Three very quick questions. The first one is, looking at your appetite for auto loans and looking at the portfolio creating 14 billion, you used to have as much as 15 billion 7 years ago. How large can you grow on this line of business to build the portfolio going forward?

The second question is whether you intend to do any changes at Redecard given the increased competition?

And the third, I would like to get your views on Argentina. Thank you.

Candido Bracher: Sorry, Carlos, could I ask you please to repeat your second question, I didn't understand it.

Carlos Gomez: Yes, at Redecard, I mean, over the last few years Redecard has lost market share versus its competitors. So you have an environment in which there are new offers in the market. You just stated you are going to remain the same, change, will you have a low-cost offer, are you going to be doing anything different in credit card compared to…?

Candido Bracher: Okay, thank you. So first, on auto loans, as I mentioned, in auto loans after 21 quarters of a decreasing portfolio, we have reverted this. We expect this portfolio to grow now strongly. I don't think we will come back to the levels of our portfolio that we had in the past, but I think it will be significantly higher than it is today.

On Redecard, yes, you are right, on Redecard there has been this pressure, competitive pressure in the market, which has caused us to lose market share, and also there were some margin compressions in this market. We are reacting to these trends by making a more combined offer of products for our account holders, the companies that are our account holders, it is improving a lot, we have hired new people as one of the few exceptions here in the bank that we hired 500 new people to deal more with the smaller companies in this portfolio, which paid higher margin. We still expect to lose some return in Redecard this year, but we expect it to level and to grow from there.

Carlos Gomez: Thank you. And Argentina?

Candido Bracher: And Argentina? In Argentina the strategy is the same as we had. I mean, we had a good year in Argentina, but we have a bank which makes money in the wholesale activity and this year even made money on the retail activity, but this was the first time in many years and it was a very small amount.

So, we think we are subscale in the retail in Argentina. We do not see many possibilities of increasing this participation in the market in Argentina by acquisitions now, this is not what we're looking at. What we are looking at is using more digital tools in Argentina in order to increase our participation.

Carlos Gomez: Thank you. Very clear.

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

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 you all for having participated in the call and thanking those who made questions, I mean, these questions always help us to try to make more clear statements and presentations in the future.

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