



**Itaú Unibanco**  
**International Conference Call**  
**Third Quarter 2019 Earnings Results**  
**November 5<sup>th</sup>, 2019**

**Operator:** Good morning ladies and gentlemen, welcome to Itaú Unibanco Holding conference call to discuss 2019 third quarter results.

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

First, **Mr. Candido Bracher** will comment on 2019 third quarter results. 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 everybody. Welcome to our third quarter 2019 earnings conference call.

I will start the presentation on slide 2, I will show the main highlights of our performance for the quarter. The recurring net income was R\$7.2 billion, representing a 1.7% growth when compared to the previous quarter and resulting in a 23.5% ROE. The key drivers of this performance were the acceleration of our financial margin with clients as well as a stronger fee revenue generation. An expected higher cost of credit partially offset these effects.

Lastly, our non-interest expenses grew only 1% despite the seasonal effects of the Collective Wage Agreement, which increased wages 1% above inflation. In the next slide we'll provide a more detailed view of these figures.

On slide 3 we show the value creation for the period. In this quarter, we created R\$3.3 billion in economic value resulting from the difference between our ROE of 23.5% and the estimated cost of capital of 12.5%.

Moving now to slide 4, we show that our total credit portfolio in Brazil grew approximately 4.9% in the quarter and 11.7% over the last 12 months. The SMEs and individuals' portfolios led the growth, as in previous quarters, but we had an important change as our corporate book grew annually for the first time in more than three years.



Also important is the increase in corporate securities deals that we advise and structure for our clients, as more than half of the total accumulated volume for the year was originated this quarter.

Lastly, the credit portfolio in Latin America increased around 3% in the third quarter, boosted by the Chilean operation. Also worth mentioning, credit origination continues strong in all segments, as you see in the left part of the chart.

On slide 5 now, on the bottom we show that the positive effect from the change in the credit portfolio mix continues to offset the impact of lower interest rates and spreads, leading to a stable net interest margin. The credit portfolio growth was the main driver behind a R\$0.8 billion increase in our current net interest income in the quarter.

On slide 6 we present the financial margin with the market, which decreased 8% in the third quarter as an effect of the lower interest rates on our foreign investments overhead strategy, as well as the lower financial margin in Latin America.

Turning to slide 7, we show the key credit quality indicators. Short-term delinquency reached the lowest level since the merger between Itaú and Unibanco, both for the consolidated and the Brazilian credit portfolio. The NPL 90-day ratio remained stable, with an improvement in the credit quality of the SMEs and corporate portfolios, whilst the ratio deteriorated 20 basis points in the individuals' book as a natural effect of the change in mix of the credit portfolio and the expansion within our risk appetite. As expected, higher loan origination, especially in the retail bank, caused an increase in cost of credit.

Delinquency and provisions are responding to the natural dynamics of the higher-than-expected portfolio growth in the retail bank in Brazil. On the next slide, we present a more detailed view of this dynamic.

Now, the graph on slide 8 shows that the loan loss provision grew at a higher rate than the credit portfolio, except on periods of economic contraction, when provisions grow even when the portfolio contracts. So the gray bars in this chart are the loan loss provisions.

For the first time since the merger between Itaú and Unibanco, macroeconomic conditions allowed two consecutive years of credit growth in the retail bank, as you see in the blue line. Therefore, we can observe that provisions are increasing along with the expansion of the credit book. We expect this dynamic to continue under normal macroeconomic circumstances. And also, as you see in the chart, in the green line and in the red lines, I mean, the ratios of NPL and of provisions of total portfolio remained stable.

Now, on slide 9 we present a breakdown of our commissions and fees revenues. As in previous quarters, the main highlights are our investment banking and asset management operations. Our investments Open Platform continues to accelerate, reaching R\$172 billion in asset distributed. This represents a 50% growth in the last 12 months. The higher client base caused current account services to grow 3% in the quarter. We have also seen the credit and debit card operations continued to grow consistently. Lower fees in the acquiring business diluted these effects.

On slide 10 we will invest now a few minutes talking about our most important assets: our clients. We have 55 million client and in the last 12 months our current account holders base increased 9%, reaching 21 million. In the same period, we opened more than 4 million new accounts, of which more than half for individuals under 30 years of age. Not all bank accounts are equal; at Itaú we open bank accounts that create value for the bank.

Finally, showcase in the efficacy of our clients' increased strategy, our global net promoters score increased 8 points in just one year, and current account closures reduced more than 25% in 3 years; an important achievement, albeit this is only the early stage of this journey.



Turning to slide 11, we show that our non-interest expenses continues to be managed with focus and discipline. This is highlighted by its accumulated growth of just 2.8%, which is below the inflation rate for the period. This was achieved by a continuous investment in technology and optimization of our processes, which enabled our cost-cutting measures. This effort led to a cost income ratio of 45.5%, the lowest in the last 10 quarters.

This quarter we concluded the Voluntary Severance Program. About 3.5 thousand employees adhered to the program out of 7 thousand eligible. This result is slightly above our initial expectation and led to a nonrecurring expense of R\$2.4 billion before taxes.

On slide 12, we show that the bank finished the third quarter with a tier 1 ratio of 14.1%, a decrease of 80 basis points in the period. This effect is related to the growth of the risk-weighted assets and the distribution of R\$7.7 billion as commentary dividends this quarter.

Finally, on slide 13, we reaffirm our guidance for the year and continue to be comfortable with the ranges provided. But just like we did last quarter, it is convenient to situate our base scenario for each line, and we are changing the indications for the credit portfolio and for the cost of credit.

We now expect our credit portfolio in Brazil to finish the year around the top of the guidance and our consolidated spread portfolio to finish the year around the midpoint of the range. These higher expectations are related to a stronger demand for credit from individuals and SMEs. As a result, we expect our consolidated cost of credit to finish the year between the mid and higher part of the guidance.

As for the rest of the lines, our expectation remains unchanged, with our financial margins with clients to finish the year close to the lower end of the guidance. We expect our financial margin with the market to be around the midpoint of the range. As for the commissions and fees lines, we anticipate finishing the year between the mid and lower part of the guidance, and we expect our non-interest expenses to finish the year around the lower end of the guidance.

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

### **Question and Answer Session**

**Operator:** Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question, please press the star key followed by the one key on your touchtone phone now. The questions will be limited to two per participant. If at any time you would like to remove yourself from the questioning queue, press star 2.

Our first question comes from Eduardo Rossman, BTG.

**Eduardo Rossman:** Hi everyone. I have two questions. The first one is on asset quality. So, I want to know if you could comment a little bit more about the NPL increase on your retail book. I want to know if this is a yellow flag or it's just like a mix effect, you know, because I think that the big pickup in provisions was pretty large quarter on quarter. I ask that because when we look to income commitment that level at the Central Bank, we are able to see already a small deterioration, despite the much lower Selic. Probably, I would assume that this has to do... because wages have been lagging. So I just want to know if this is a concern, you know, for you and if this is a concern for your growth on the individual book thinking about next year. And then I'll ask my second question later.

**Candido Bracher:** Hi Eduardo, thanks for the question. I wouldn't say this is a concern, but it is, of course, an item to which we pay a lot of attention and we follow very closely. We understand this small



NPL increase in the retail book to be a normal effect of the change in mix of these lines. We, as I said, follow it closely and we see nothing extraordinary there, we understand this is an expected effect.

I understand what you mentioned about the Central Bank report, which points to a worsening in the credit quality, in the credit card specifically. Our own indexes are better than those pointed by the Central Bank, so we didn't see in our portfolio that worsening which is presented in the Central Bank portfolio.

**Eduardo Rossman:** Perfect, thanks a lot Candido. My second question, I know we still don't have, you know, the budget or guidance for next year, but we are already at the end of 2019, so I wanted to know if you could share a little bit your initial thoughts about next year and all that you expect, I think everybody expects a better economy, right, so I want to know if you could share, you know, some thoughts about, look, does it make sense to expect loans to be a little bit better next year? Your NII has been recovering pretty nicely, does it make sense to believe that it could grow a little bit faster next year than this year, at least the client portion? Fees, which has been a big challenge, you know, you did it pretty good job over the past couple of quarters, right, so do you still think it's possible to grow above inflation next year? Insurance, on the other hand, you've been restructuring, but it still kind of a drag on the result, and that's a big line, so do you think that could improve? Costs, you've been very vocal about it. We have also tax rate increasing. So if we add everything up, do you still think that we could see bottom line expansion next year? If you could share some brief thoughts, it would be very interesting. Thanks a lot.

**Candido Bracher:** Okay, Eduardo, so I will give you a brief overview the general scenario for next year, but I will not go into detail in each of our lines of businesses since we haven't studied them in detail yet.

So, we see a stronger economy next year, stronger compared to this year. Our economit forecast is GDP growth at 2.2%, I even think it can be more than this. So, we expect, I mean, the credit portfolio and services to keep on growing. Of course, we also expect the competitive scenario to... I mean, competition to increase as we've seen in recent quarters, and there may be some pressure on spreads and on fees in general.

So, we will have this positive effect of the economic growth in our results, but we have some significant headwinds also, and I mentioned two. First, the higher social contribution, which with the approval of the pension reform is to increase from 15% to 20% again; and second, the lower interest rates scenario. I mean, we've seen that interest rates may be even lower than 4.5% next year, the over-90 interest rates, and this affects many lines in our balance sheet: the earnings on our own capital, the earnings on all float generated by services, and the results of our over hedge book.

So, I mean, there is a mix for next year of positive expectation with the economy and some specific headwinds which will definitely have an impact on our results.

**Eduardo Rossman:** Okay, thank you very much Candido.

**Operator:** Excuse me, our next question comes from Jorg Friedman, Citibank.

**Jorg Friedman:** Thank you for the opportunity to make questions. I have two questions as well. Starting with the first, we noted that in the quarter risk-weighted assets increased 40.5 billion, well above the growth in loans. In addition, your Tier 1 is now running after the dividends at 14.1%, which is, you know, just 60 basis points above the target that you guided to the market at 13.5%. So my first question, taking all of this in consideration, is first, to understand if the RWA increase is transitory or if, you know, it



should be recurring ahead? And if you see room to continue paying, you know, dividends, the payout at the average of the last three years above 70%? And then I'll make the second question. Thank you.

**Candido Bracher:** Okay, Jorg, thank you for the question. As we have been stating for quite some time, dividends are the consequence. Dividends are not the target. We do not target a specific dividend distribution on a proportion of our profits. I mean, dividends are the capital which is idle above 13.5% of Tier 1 capital.

So, I expect over RWA to continue to grow. I expect that we will have profitable opportunities of using capital in credit and in other areas of the bank. Having said that, I think, I mean, still our capacity to generate capital is way above the possibilities of use of capital that we see on the short-term, so, as a consequence, I think that dividend distribution will still be significant looking forward.

**Jorg Friedman:** Perfect, clear. Thank you very much, Candido. And then my second question, I see that you have approximately R\$37 billion in net tax credits in your balance sheet. As a result of the tax increase implied in pension reform, I think this is expected to be reassessed at a new rate, thus generating an extraordinary profit. In my members, this accounting profit, you know, could be approximately R\$4.5 billion. So just wondering if, you know, this makes sense for you and what, you know, should you do with these additional profits? I mean, not sure if you're going to pay dividends on that, but if you see any, you know, lines of the balance sheet that you'd like to reinforce. Thank you.

**Candido Bracher:** Thank you, Jorg. Yes, you are right, I mean, judging from past experiences, this elevation in the taxes will generate profit over this R\$37 billion, and I mean, we still have not decided on how to apply this profit. I mean, this decision we will take during next quarter and announce together with the last quarter's results.

**Jorg Friedman:** Perfect. Sorry, I just couldn't hear exactly your estimate of the profit generated. Could you please repeat, Candido? Thank you.

**Candido Bracher:** You didn't hear because I didn't say it, Jorg. We still didn't calculate it.

**Jorg Friedman:** [laughter] Okay, perfect. Thank you.

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

**Jason Mollin:** Hello everyone. My first question is on Itaú's focus on cost efficiency. Could you provide more color on the Voluntary Severance Program? You disclosed already that 3.5 thousand employees participated, around half of those that were eligible. What do you expect in cost savings versus the R\$1.4 billion after-tax charge? And do you see more programs like this in the future? That's my first question, thanks.

**Candido Bracher:** Hi Jason, Milton Maluhy will take this question.

**Milton Maluhy:** Hi Jason, how are you?



**Jason Mollin:** Hi! Good, thank you.

**Milton Maluhy:** Okay, great. Well, about the effects of this program, what we can say is that we don't foresee in the near term any program like that. The last time we offered a program like this to our employees was in 2010, one year after the merge, and at this time we thought we could do another one to achieve specific publics and people... employees from our bank, providing them the opportunity to do a transition in their career, and specifically because an important part of this publics were stable, somehow, they were protected by law, so the only way they could achieve or move, or do a career transition were with this program. So this was the main reason why, so we've had 7 thousand people and we had the adoption by 3.5 thousand employees.

When we say that they had this major impact of R\$2.4 billion before tax, I would say that some is for labor discussions in the future, so we know the history of this specific public, that's why we made some provisions according to that. Some are costs that we had when you dismiss the people, so a regular cost of debt. And some are some fines that you have to do as well as regular cost of this program.

So what we did is anticipate some of the costs we would incur in the coming years, especially because important part of that was stable employees, and with that we had this important impact in this quarter, but we have a positive expectation of the benefits of this program in the coming years. Of course, we don't have exactly the numbers, but we are working at this moment with 3 thousand employees below what we had by the year-end of 2018 in Brazil. We expect to be very focused on that on the coming quarters, so very disciplined in terms of headcount, in terms of growth. So, the idea is to keep this trend.

**Jason Mollin:** That's helpful. My second question is on Itaú's international presence and strategy. Could you provide an update on the outlook for Chile, which represents, the last calculation I did was around 17% of the loans for the Group, and how Itaú views its exposure in Chile. And maybe you can also talk briefly about – it's small – but about Itaú's position in Argentina and the exposure there. Thank you.

**Candido Bracher:** Okay, thank you, Jason. As for Chile, I mean, it is 17% of the loans, as you know, I mean, our ownership of the bank is slightly above 30%, 35% of total capital, and the minority participation – 38%, sorry – minority participation is 62%. We see the bank evolving well in an economy which is facing its difficulties, but I mean, we are progressing consistently in perfection, I think the management of the bank, of implementing new technologies, which we have from Brazil, evolving in the technology area, which is a movement of the bank, its results of mergers and so on. So we see a positive evolution in our Chilean operation.

Naturally, we were concerned now with the events, the political events in Chile, the social unrest, We had a few branches closed because of that, but the worst seems to be behind us now and we expect a normal evolution for the bank in Chile.

As for Argentina, Argentina, as you know, is a much smaller operation and we've been in Argentina for quite some time. Argentina represents less than 1.3% of our book and, given the long time that we've been there, I mean, we've grown accustomed to the volatility in the market and try to avoid. So, earlier this year, because of fears that we had that the situation could worsen in Argentina, we have reduced significantly our risk appetite for that market, which places us now in a more comfortable position to wait and see the evolution of the economy under the new government.

**Jason Mollin:** Thank you very much.



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

**Otávio Tanganelli:** Hi everyone, and congratulations on the results. Thanks for taking my question. I also have two questions. The first one is on the NII with clients. So, maintaining the 9% to 12% growth for the year would imply a material acceleration in the last quarter. So, I would just double check with you if you still think that the bottom line of the guidance is still feasible for the year.

And second one, I wanted to get a little more color on the fees' sustainability, particularly on the asset management segment, where we saw a very nice increase on assets under management, around 21% as per your disclosure. But even so, fees increased a little more than 28%. So I wanted to understand what's driving this very good increase on revenues, if there is migration for funds that charge a little higher management fee, or if some funds are performing very well on the Itaú asset? So, if you could give us a little more color on that it would be great. Thank you.

**Candido Bracher:** Thank you, Otávio, for your questions, two very good questions. The first one is exactly as you say, I mean, we expect an increase on the NII in this last quarter, as it has been happening already, in the third quarter we've seen an increase in the growth in this margin compared to the quarters before. So, this is what, I mean, make us believe that we will be able to reach the bottom of the guidance interval which we provided.

As to the fees' sustainability, you see, I mean, the major growth in fees has been coming from investment banking, and this activity we expect to continue very intensely going forward, I mean, we are seeing, with the growth in the economy we are seeing an intensification in offer and demand of fixed rate and equities in the local market, and our investment bank having a leading position in this market in Brazil, also in the M&A market.

And in asset management, the fees' growth, I mean, it derives mainly from higher volumes, especially in the Open Platform, and from performance fees, you are right. So, the funds which earned a performance fee are performing positively, and this has been granting an increase in fees, along with a higher volume invested in these parts. So, the volume is easier to forecast, the performance of the funds, I mean, we invest our best talents in managing this, but, I mean, they are more difficult to anticipate.

**Otávio Tanganelli:** Very clear, thank you.

**Candido Bracher:** Thank you Otávio.

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

**Thiago Batista:** Hi guys. I have one question about the quality of the clients that are opening bank accounts in the bank nowadays. We are seeing in Brazil a boom in the number of bank accounts, so all the players, fintechs, larger banks, so everyone are opening let's say thousand or even millions of clients during the year. So can you give us your view about this trend and the quality of those new clients? Is the bank seeing a kind of cannibalization in its client base or not? Those guys are more unbanked clients? So how are you seeing this boom in the number of bank accounts in Brazil?



**Candido Bracher:** Hi, Thiago. Well, I don't see a boom in opening accounts in Brazil, I see a lot of competition and so on. But I mean, I think we've been increasing the number of accounts we open based on really investing in this activity. As I mentioned here, we are satisfied with the projects of accounts.

As a general trend, I can say that accounts opened physically tend to have a better quality than accounts opened digitally. We are working very intensely on our digital products in order to narrow this gap, but the accounts opened at the branches still show a significantly better quality than the ones opened through apps.

Sorry, what else did you ask?

**Thiago Batista:** If you are seeing a kind of cannibalization of your client base.

**Candido Bracher:** Cannibalization. Not yet cannibalization. We may experience some cannibalization now from ITI, which we are launching, as you know, and which has a payment account, right, so, and it's a cheaper product than the regular accounts that we have, so there we may experience some cannibalization, it's almost sure that we will, though this are complementary publics. I mean, I think we will have a lot of accounts opened by a new public, which we are not reaching today, and we will start reaching with ITI.

But some cannibalization is inevitable and we are not especially worried about that, I mean, we are fully aware that we are not the only player in the market, so if we don't launch products that compete with our own products, certainly others will, and we better lose these clients to ourselves than to new competitors.

**Thiago Batista:** Okay, thank you and congratulations for the results.

**Candido Bracher:** Thank you.

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

**Jorge Kuri:** Hi, good morning everyone, congrats on the numbers. My question is on credit growth, Candido. If you could please provide some color on what you are seeing on the credit market under different key categories. Your credit card business is growing up 20%, your car loans are up 19%, personal loans, you know, also, you know, 20% plus, SME, and you saw for the first time a recovery in corporate lending. So how do you characterize what's happening in each of those buckets and what is your outlook for either the next 6 to 12 months? To what extent this pace of growth can continue and is it needed to have a strong economic recovery or not? Employment, are you seeing, you know, this growth coming from much better financial conditions, as rates are lower and consumer has deleveraged, SME has deleveraged? Just help us understand what's happening and what's driving all of this and what's the sustainability over this going forward. Thanks.

**Candido Bracher:** Thank you, Jorge. Well, I think we have two main tailwinds behind this higher demand for credit. It's the economic growth and the lower interest rates. I think the lower interest rates are very powerful for borrowing. I was just looking at the figures today, the Central Bank divulges an index called ICC, which is the global cost of credit, and they divulge ICC for *Recursos Livres*, for the resources which are not designated to someone specifically, and since the interest rates started to fall



in September 16, the SelicC has fallen by 8.8% while the ICC has fallen by 22.8%. So, there is a real decrease in rates, which is slowly reaching the clients and I think this encourages growth in some lines, specifically in, I think, mortgage loans and payroll loans, I mean, will benefit a lot from it, the other lines as well.

And, of course, higher market activity, we expect unemployment to improve, and this also increases the demand. So, I don't think that the rate of increase in demand for loans will increase, actually I expect to taper a little bit, but we will have positive growth, I think we may have positive growth for quite some time yet.

In the corporate market, it's much more difficult to forecast because the demand for funds is there, we see the investments appetite really increasing in the economy, but if these companies will borrow from banks or from capital markets, it will depend very much on more specific conditions. I think this quarter capital markets were a bit tired of fixed rate loans, there was a bit of oversupply in the capital markets, we saw some credit funds specifically having to sell some assets, so I think that this provoked a turn into a demand towards the banks, and this is why portfolios in the banks grew. I mean, it's not certain that these situations will continue in the next quarters.

**Jorge Kuri:** Thank you.

**Candido Bracher:** You are welcome.

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

**Victor Schabbel:** Hi, good morning everyone. Thanks for the opportunity. Just a follow-up on Jorge's question. You guys have been growing quite well in some retail lines, and could you provide us with a better visibility on a product by product basis which one would you see as more promising going forward given the strong growth Itaú had in credit cards, for example, while other lines have been lagging, like payroll, like mortgages, which are usually safer lines, but lower yielding? So just a brief comment, if you might make about, what you expect in terms of the type of loans that should be, let's say, driving growth in the retail ending markets in the coming quarters and coming years. Thanks.

**Candido Bracher:** Thank you, Victor. Very good question. As a matter of fact, we have been growing more in credit card loans and personal loans than in mortgage, vehicle or payroll loans, and this I think is one of the reasons behind the mild increase in NPL 90 in individuals' portfolio.

So, looking forward, I wish we would grow more than we've been growing in these safer lines of credit, like mortgages and portfolio loans. Here, I mean, there are more limits to growth than in the credit card market, mortgage loans, which are more opened and don't depend so much on you having a specific access and it create special situations like these.

**Victor Schabbel:** Thank you. Thank you for that.

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

**Henrique Navarro:** Hi. Thank you for the opportunity to make some questions. My question is more on the acquiring business. This revenue line has been down one year, 20% year over year. I believe we



might expect some continuous pressure for the 4Q. So my question is, when do you believe we are going to see this declining path to stabilize? I mean, is it going to be in 2019, or it might continue throughout 2020? That's the first question.

The second one, if you could shed a light on the new commercial proposal from Redecard on the acquiring business. When you established the end of the prepayment rates on credit card transactions, we know the evolution of Pop Credit Card, any news you could share with us, I mean, market share you are targeting, you have been successful or not, I would appreciate. That's it, thank you.

**Candido Bracher:** Okay Henrique, thank you for your questions. You are right, I mean, the acquiring business has been decreasing and I wish I could tell you when I think it will stabilize, but I don't know. As I see it, I mean, this is a trend that may continue indefinitely. We've seen this with other types of products in the past, I make some mental comparison between the acquiring business and what once were current accounts. Current accounts have always been a product which was not especially profitable, on the contrary, it was very much a drag on results, but it was a very important product in order to distribute other products, other financial products. So, you must see it under a portfolio view rather than a specific product.

As a result of our initiative on the D+2, in May, we have gained market share in the companies with earnings up to R\$30 million a year, which was our goal. We are satisfied with this growth, I think it really corresponded to our expectations and we keep on growing there, but we lost more market share in the large corporations than we gained in the small ones.

In the large corporations, as you may know, competition has been very intense and at prices which, I mean, are not reasonable, are loss leaders. So we have not been participating in this competition at the cost of losing global market share in this segment.

We persevere with our initiatives in the lower segments and in Pop Credit Card, which is holding positively, and it's a very difficult market, I mean, it's one of the most difficult markets in which we participate, and we must play the game here, and this is what we are doing. We are working quite intensively on cost control in this area so as to be able to reduce prices even more.

**Henrique Navarro:** Okay, thank you very much.

**Candido Bracher:** You are welcome.

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

**Domingos Falavina:** Hi Candido and team, thank you also for taking the question. My question is more like, I know you're not guiding to 2020, but just sort of what kind of sensitivities you have run internally, if I may say that?

When I started to update our models here, we are getting basically two counterintuitive bottom lines. The first one is that – and it's not a perfect metric with the data we had on Central Bank, but – when we try to decompose your NII and see the mix shift, we actually see a scenario where 2020 may have either no spread compression on clients or even some increase given the mix shift is so strong and that tailwind might even help your NII. So my first question is: I'm sure you have better data when you look at your average book and you look at the new book and the mix change, is that a scenario where we could see no margin compression?



The second is more negatives on cost. So we have only cost of risk as disclosed by you on IFRS, not on Brazilian GAAP, but when we decompose and we changed the mix, we are getting scenarios where no cost of risk could increase provisions, could grow 20%+ year on year. You know, how does your data indicate those two figures?

**Candido Bracher:** Domingos, we are really not guiding for 2020, so I will be very generic in what I will say, but during this year we had a pressure on specific spreads. You see, I mean, in the financial margins with clients we decompose the effect of the asset spreads, which has been negative throughout the year, but it has been compensated by the mix of products. This has happened in every quarter this year. We think some of this may continue during next, but there is a limit to it, and as I said in my previous answer, I mean, I would expect that we would grow more now in lines which have lower spread but also better quality of credit, like mortgages or payroll loans. But yes, you are right, I mean, this effect exists, I mean, there is a change in mix which counterbalances, even only partially, the pressure on spreads.

As to cost of risk, I mean, I have shown in the page 8, on slide 8, you see that, yes, I mean, the provisions which are in the gray bars, I mean, they increased along with the growth in portfolio, maintaining the same – this is only for retail bank – maintaining the same NPL rate and provisions over average portfolio. So when the portfolio grows, it is to be expected that provisions should also grow.

**Domingos Falavina:** Yes, but I think what I meant is that you had a lot of reversals on the corporate and those reversals shouldn't happen next year. So if we apply a 203 cost of risk to large corporate, which is not high, we get to more than 20% provision growth year on year. I understand retail looks okay, but just, you know, the support from wholesale won't be there. Do you do any analysis on that that you could share?

**Candido Bracher:** Yes, I mean, you see, I mean, this quarter we have no reversals at all, I mean, there were no effects in the complementary provisions, and I think, I mean, you are right, there will in the future be less movements in the complementary position than there has been in the past.

**Domingos Falavina:** Okay, thank you.

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

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

**Eduardo Nishio:** Good morning, thank you for taking my question. Good morning Candido. Two questions as well, it's a bit of a follow-up on the previous questions, but I just want to make sure I get the right message here. Interest rates are at very low levels now, strictly changing the composition and we are seeing probably rates, real rates going to 1%, I think it was the scenario two years ago. So if you could share with us your general thoughts on how you see the economy evolving, the competition, you know, how the bank is preparing itself and how you see volumes, credit, volume mix, spreads, fees, expenses moving forward in the next few years going beyond 2020, and your general thoughts on how the bank is preparing itself.

And also, the second question is related to the complementary allowances, as you said in the previous question. We see no change in the balance, so I was just wondering how you see that evolving going forward. Probably you didn't have any reversals this quarter on complementary allowances. So, if you



could give us some thoughts or give us some visibility on how you see those numbers going forward. Thank you.

**Candido Bracher:** Thank you, Eduardo, for the questions. You are right, I mean, on your first question concerning the interest rates and the scenario, I mean, we are on uncharted waters here. We really have not interest rates that low in Brazil and with reasons to believe that they will remain low for quite some time. The inflation, I mean, does not show any pressures and there is, as you know, still high unemployment in the country, which, I mean, is all the bad things that comes with it, but one positive side effect which is the fact that inflationary pressures are much lower. So, I think we may be looking at a longer-term scenario of low interest rates in Brazil.

My expectations in relation to this are very positive. We've seen this in other countries in the past, I mean, when you can look at a sequence of years of growth, albeit modest growth, but stable, with low interest rates, I think the economy strives and the financial system drives with it. So, I think that there will be possibilities for increasing the loan books and to put capital to work more. As in the previous question, I think our RWA is bound to increase and we will be able to work in different lines of credit, improving different lines of credits. All this while facing more competition, which I think is also a natural consequence of the scenario in which people feel more secure to lend because the quality of loans improves. So I see this as positive for the financial sector, especially for the banks established in the market.

And in relation to the complementary provisions, I mean, we do not make forecast here because, as you know, these things depend very much on individual means, and it's volatile, and so on. But it is a fact that in inventory of bad loans, which can be recovered, has been reducing over the last two years and so. So we have a small inventory going forward and it would be natural to expect less movement on the complementary provisions going forward.

**Eduardo Nishio:** Okay, thank you so much. Just a follow-up here. Any estimate for how much the private banks can grow loans, if we can refer back to historical levels like 2007 and 2008, where you had also a structural change in interest rates and loans grew 30% or 40%? Is there any chance to have that loans going back to, I don't know, like 20% or so for private banks?

**Candido Bracher:** This is not what I am seeing, Eduardo. I think not a growth as high as 20%. I mean, I don't expect demand to increase that much. I would see probably more low-to-mid-teens for individuals and SMEs. For corporations, it's even more difficult to forecast, but certainly lower than this.

**Eduardo. Nishio:** Great, thanks so much.

**Candido Bracher:** Thank you.

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

Our next question comes from Neha Agarwala, HSBC.

**Neha Agarwala:** Hi, thank you for taking my question and congratulations on the results. Two very quick questions. First on ITI, you recently launched the product family and that already seems to be good



taken in the market. What is your plan with the product, how would you incentivize consumers and merchants to use the ITI application? So, are you giving any rewards or cash backs? What is your strategy to increase the usage?

And my second question is on fee income. Is it fair to say that we should see low single-digit fee income growth in the coming years? You mentioned that acquiring is going to be under pressure for maybe some more time, and it is certainly hard to say when that's going to stabilize, and we are seeing pressure on fee income as well. So, would it be fair to say single-digit fee income growth in the coming 2, 3 or 4 years, maybe? Thank you so much.

**Candido Bracher:** Thank you, Neha. Well, on ITI, we are living important days as we speak, I mean, we are now on the public launch of the product, I mean, it's having a good reception by the public, we are increasing the number of accounts assessed and we are starting to divulge it more.

The product still has few features, I mean more features are going to be added to it as we develop it, but I think it's has a very good value proposition, especially to small merchants, I mean, who are able to sell and collect at a much lower rate than the alternatives. And yes, there'll be more stimulus going forward to the project. We are still in the first days of this offer. I think next quarter we will be able to talk in more detail about the evolution of ITI.

In relation to the fee income, yes, I mean, you are right, I mean, in the acquiring business we see a lot of pressure, as I mentioned. In other businesses, I mean, we have projects which are evolving well, and which make us optimistic when we look at the future. The Open Platform Insurance is evolving positively now, I mean, we're seeing a good evolution there. Investment banking and asset management are also, I mean, in good perspective, cash management in general has been evolving well and tends to evolve well, in line with credit growth, so as credit grows, we traditionally see an increase in the demand for cash management products and an increase in our penetration in cash management products. So we are positive about the perspectives of fee income behavior in the future.

**Neha Agarwala:** Thank you so much, that's very helpful.

**Candido Bracher:** Thank you.

**Operator:** As a reminder, if you would like to pose a question, please press the star key followed by one.

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

**Candido Bracher:** Well, just to thank you all for your presence and the interest and the good questions. Thank you very much, bye-bye.

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