

## Y 2019 Earnings Call

### Company Participants

- Candido Botelho Bracher, President and Chief Executive Officer

### Other Participants

- Carlos Gomez-Lopez, Analyst
- Eduardo Nishio, Analyst
- Eduardo Rosman, Analyst
- Jason Mollin, Analyst
- Jorg Friedemann, Analyst
- Otavio Tanganelli, Analyst
- Victor Schabbel, Analyst

### Presentation

#### Operator

Good morning, ladies and gentlemen. Welcome to Itau Unibanco Holding conference call to discuss 2019 fourth quarter results. At this time, all participants are in a listen-only mode. Later we'll conduct a question-and-answer session and instructions will be given at that time. (Operator Instructions) As a reminder, this conference is being recorded and broadcast live on the Investor Relations website at [www.italu.com.br/investor-relations](http://www.italu.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 here today in this conference call in Sao Paulo are Mr. Candido Bracher, President and CEO, Mr. Milton Maluhy Filho, Executive Vice President, CFO and CRO, and Mr. Alessandro Broedel, Group Executive Finance Director and Head of Investor Relations. First, Mr. Candido Bracher will comment on 2019 fourth quarter 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 Botelho Bracher** {BIO 3158644 <GO>}

Good morning, everyone, and welcome to Itau Unibanco's fourth quarter and 2019 earnings conference call. As you see, this year, we broke down this presentation in four parts; strategic initiatives, highlights of the fourth quarter, 2019's results, and our forecast for 2020.

Now, moving straight to slide three, we present some key performance indicators from our four strategic initiatives. As you may recall, we launched this agenda two years ago with customer centricity as the main piece, supported by three fundamental levers; digital transformation, people and efficiency. We understand that these initiatives are the roadmap of our transformation journey. Although they are long-term focused, we are already experiencing impressive results. Net promoter score or NPS improved in a meaningful way across our operation, and this reflects directly into our client acquisition and retention as we are opening more bank accounts while reducing bank accounts closures.

On the digital transformation front, we continue to invest heavily in IT and we more than doubled our capacity in four years. As a result, we see important productivity gains since we doubled the projects delivered with an increase of 24% in the net present value. Also of note, the delivery time was reduced by 27%. As for efficiency, in 2019, we had the best annual cost to income improvement in the last four years. Finally, our employee satisfaction levels continue improving from an already high standard as we are bold [ph] in implementing new ways of working in the bank, giving our teams more flexibility and agility in the way they work. These results are just the tip of the iceberg, and we believe we are just in the beginning of this journey. We believe these results speak for themselves.

Page four now. It's not by accident that we placed this slide also within our strategic initiative session. ESG is absolutely core to what we do. We believe that having good governance, taking care of the environment, and being positively engaged with the society in general and the communities we are part of is essential. It is good business. We have incorporated eight specific and measurable goals into our core businesses, out of which we show four of them here today.

Let me highlight, we are already offsetting a 100% of our direct and indirect carbon emissions since 2017. But that's not enough. And that's why we are moving towards creating positive impacts, for instance, earmarking substantial financial resources to finance positive impact factors and clean energy.

On slide six, we now move into the second part of the presentation with the fourth quarter highlights. Our recurring net income grew 1.9% in relation to the previous quarter, reaching BRL7.3 billion. And with that, we managed to achieve 23.7% ROE, the highest we had in the past 17 quarters. In Brazil, net income increased by 3.3%, which led to an ROE of 25.1% in the fourth quarter.

The results from fees and insurance were particularly strong this quarter, growing 11.3%. This performance was mainly driven by our asset management and investment banking units. Our financial margin with clients or NII continued to show a positive trend, growing

2.9%. This is the result of our robust credit portfolio growth in Brazil of 4.2% as well as of the positive change in credit mix.

For us, the NPL in Brazil remained stable. The consolidated figure increased by 10 basis points as a result of a couple of corporate cases in our LatAm portfolio. This impact can also be seen in the cost of credit for this specific portfolio. Lastly, but by no means less relevant, we managed to keep our non-interest expenses at bay, posting a growth of only 1.7% despite the seasonally higher administrative expenses and the full impact of the annual wage agreement of 4.3% with the union.

And now talking about 2019 full-year results. On slide eight, we share some of the main highlights of 2019. We reached a very solid consolidated ROE of 23.7% on the back of a net income growth of 10% year-on-year. In Brazil, we posted a return of 24.9% with net income growing 10.6%. This performance was driven by a robust credit expansion of 10.9% with positive impact on our net interest income and our fee income also grew substantially, above inflation. On the same token, our cost control initiatives and constant investment in modernizing our infrastructure generated our biggest efficiency gain over the last four years. Non-interest expenses contracted 1.7% year-on-year on real terms.

All right, page nine now. These positive results were attained despite the fact that the economy performed differently from what we expected at the beginning of the year with diverse impact on our business. GDP's headline growth came below expectations, but with a healthier breakdown. Private investment and consumption grew 3.6% and 2.1% in the year respectively, therefore partially offsetting the contraction on the public side. The low inflation and overall macroeconomic conditions allowed for further cuts in the base interest rate, which reached its lowest level ever. This translates to a positive dynamic to our credit portfolio both in terms of portfolio growth and NPLs, even if, at the same time, it had a negative impact on the NII.

Moving to slide 10, you'll see we posted our highest value creation ever, BRL12.8 billion, which represents a 38.3% growth over 2018. This reflects 2019 strong financial performance when operating revenue grew 7.1% and expenses only grew 2.5%, as well as an efficient capital management and lower cost of capital.

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

Now, on slide 12, we will discuss net interest margin or NIM and the NII. Our consolidated risk adjusted NIM decreased 70 basis points in the quarter, mainly due to a couple of specific cases in the LatAm portfolio that required greater provisions. Excluding the effect, risk adjusted NIM decreased 30 basis points in the quarter. In Brazil, the gross NIM contracted 30 basis points due to seasonal effects in our credit card portfolio, which diluted NIM as it was the case in the same period in previous years. Despite the impact of growth in credit on our working capital as well as lower credit spreads, the NII grew 8.6%

this year. This performance was achieved by the combination of the credit portfolio growth with a positive change in the product mix.

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

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

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

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

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

When we look at our fee revenues for 2019 on slide 17, which grew substantially above inflation, we can clearly see part of the benefits of being a universal bank. Itau Unibanco's asset management and investment banking operations had their best performances ever, showing very strong growth of 25% and 79% respectively. Not less important were the results achieved by our credit card issuing business, which continued to grow its client base and revenues despite of fierce competition.

Things were not as bright though on acquiring revenues, which declined 20.8% in the year. Client satisfaction improved a lot this year though, as initiatives like the D+2 [ph] were implemented.

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

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guidance. This was achieved by a strong and continuous investment in technology automation and process efficiency. Despite this very positive performance, we understand efficiency as the main lever for improving profitability and we are focused on delivering further more structural gains in the coming years. Our cost-to-income ratio had the highest improvement in a single year since 2014 and finished the fourth quarter at 44%.

On slide 19, we present Itau Unibanco's 2019 dividends, and net interest on capital will reach BRL18.8 billion. This represents a payout of 66.2% overall our recurring net income or 77.6% over our accounting net income and a dividend yield of 5.5%.

On slide 20, we present a summary of our 2019 guidance. In Brazil, we reached or delivered better figures than the guidance in all the lines which were provided. As for the consolidated, we missed the mark in four lines, being two of them better than forecasted and two more like that [ph]. The latter due to unfavorable ForEx in our Latin American operation as well as due to a couple of corporate delinquency cases in LatAm. Despite these deviations, we had in the year, our recurring net income - despite these deviations we had in the year, our recurring net income was well within the implied range of the guidance.

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

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

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

Our cost of credit should end 2020 between BRL18.5 billion and BRL22 billion. This growth is driven basically by credit portfolio expansion. Commissions, fees, and results from insurance operations should continue to grow strongly above inflation, expanding between 4.5% to 7.5%. Finally, the midpoint of our guidance for non-interest expenses is a 0.5% contraction. This is the first time we provide a guidance indicating cost contraction in nominal terms, which in real term, could represent cost savings in the magnitude of 4% year-on-year, depending on the inflation.

This guidance is a clear sign of our commitment to improve the firm's operational efficiency, mainly supported by increasing IT investments and tight control measures. This search for increased efficiency should be seen as a long-term, multi-year effort and not as a one-off. Lastly, we expect a higher effective tax rate due to the hike of social contribution tax for financial institutions. The guidance for our Brazilian operation should closely follow the trend casted for the consolidated figures.

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

## Questions And Answers

### Operator

(Operator Instructions) Our first question comes from Jason Mollin, Scotiabank.

#### Q - Jason Mollin {BIO 1888181 <GO>}

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

#### A - Candido Botelho Bracher {BIO 3158644 <GO>}

Thank you, Jason. Good morning. Well, yes, the cap really represents a significant impact on our financial margin with clients. We estimate an impact of around 5%. It's a really important cap. We do not expect further caps on interest rates. We think -- I mean, this -- overdraft lines were a special case in Brazil, very visible, very criticized in general by society who failed to see that, I mean, the very high level of interest rate charged on overdraft was a direct consequence of the fact that overdraft taxes -- overdraft fees are not allowed to be charged in Brazil. As the resolution came out by the Central Bank, they also allowed for overdraft fees to be charged, but in a manner, which we do not think is feasible or it's adequate to charge, charging them on the limit and not at the moment when the client exceeds its terms and interest into the negative terrain. So we have taken the decision not to charge this commission, this fee from our clients.

#### Q - Jason Mollin {BIO 1888181 <GO>}

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

#### A - Candido Botelho Bracher {BIO 3158644 <GO>}

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Thank you, Jason. Well, I cannot confirm your forecast on earnings growth since we don't -- we do not supply earnings growth, but I think it's fair to say that we expect 2021 to have a higher earnings growth than 2020. And the reason being that in 2020, we have three significant headwinds, which are once and for all events; the cap on the overdraft, the interest rate, which is more than 1.5%, the average interest rate in 2020 will be more than 1.5% lower than in 2019. And the higher tax, social tax. So these three effects which are once and for all, we don't expect them to go worse in 2021. So 2021 should have a growth clean of these negative effects, which we will experience in 2020.

**Q - Jason Mollin** {BIO 1888181 <GO>}

That's very helpful. Thank you, Candido.

**A - Candido Botelho Bracher** {BIO 3158644 <GO>}

Thank you.

## Operator

Our next question comes from Jorg Friedemann, Citibank.

**Q - Jorg Friedemann** {BIO 15405752 <GO>}

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

**A - Candido Botelho Bracher** {BIO 3158644 <GO>}

Thank you, Jorg. Concerning cost of credit, I mean, the -- our estimation is that it will grow approximately in line with portfolio growth. I do expect portfolio to grow a bit more in lines, which have a smaller default rate such as mortgage and payroll loans. So this could explain a part of what you mentioned. The rest is the normal dynamics of cost of credit and portfolio growth. We are now entering our third year of strong growth in portfolio and this makes it expected that cost of credit should grow according to portfolio, more or less this is more of (inaudible).

**Q - Jorg Friedemann** {BIO 15405752 <GO>}

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

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### **A - Candido Botelho Bracher {BIO 3158644 <GO>}**

I think as you can see, I mean, SMEs, I mean, has been growing more than individuals. I mean, we have been growing origination of SMEs at 31%, whereas the individuals have been growing at 23%. I think these are sustainable figures of -- not of portfolio growth, but of origination growth. In the corporate, I see 23% of credit origination growth here. I don't think this is quite sustainable. I mean, I think we will see lower figures here, not because of lack of demand, but because capital markets will supply most of this additional demand by large corporates. So yes, I think that in balance, SMEs and individuals portfolio will overgrow the large corporates.

### **Q - Jorg Friedemann {BIO 15405752 <GO>}**

Perfect. That's very clear. And then my second question. We see relates to -- related to the guidance of the financial margin with the market, differently from last year, I understand that the consolidated, I know, guidance for this year between BRL5.7 billion and BRL6.7 billion, taking into consideration implicitly that a bigger portion of these results will be derived from the international operations versus last year. And just wondering here, if -- what do these rely upon, maybe some unrealized gains that you have in the Itau Corpbanca's operations or what else is driving this strong margin with the market outside Brazil. Thank you.

### **A - Candido Botelho Bracher {BIO 3158644 <GO>}**

Thank you, Jorg. No, I mean, there is no unrealized stock of gains in the LatAm book, but we do expect some more volatility in the LatAm book than in our Brazilian the portfolio, and this volatility normally presents better possibilities of gains in the financial margin with the market (Technical Difficulty) some improvements more in Latin America than in Brazil.

### **Q - Jorg Friedemann {BIO 15405752 <GO>}**

Perfect. Very clear. Thank you very much.

### **Operator**

Our next question comes from Otavio Tanganelli, Credit Suisse.

### **Q - Otavio Tanganelli {BIO 20615779 <GO>}**

Hi, thanks for the opportunity. I have two questions, if I may. The first one is, we saw a very good performance on the asset management fees. I just wanted to understand how much of it do you think is recurring because the market performed really well in the fourth quarter. I would assume that there is a sizable chunk of performance fees, which are arguably non-recurring. And secondly, on the guidance for operating expenses, how confident are you that you can reach the guidance and what do you think are the -- that you can do inside the bank to reach the guidance? Is it closing more branches, optimizing the personnel structure? If you could give us a little more color on that, it would be great. Thank you.

### **A - Candido Botelho Bracher {BIO 3158644 <GO>}**



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Thank you, Otavio. Well, on asset management fees, I mean, we are seeing a considerable growth in our fees under management. So as you can see, we have a 20% growth in the traditional assets under administration, and on the open platform, 46.9% growth. So this growth is mainly what drives the results. There was an important contribution from performance fees, and albeit this cannot be considered recurrent, we have set a very genius, in my opinion, way of having multiple asset management teams in our high-end plan, which are producing very good results, way of our plans. And so we're seeing a very good flow of performance fees so far.

In operating expenses, here there is no silver bullet. As it has been mentioned, this is a multi-year effort. We are gearing our efficiency index lower. We are investing a lot in technology to do it and I think these investments in technology are the main generator of economies here. We will close more branches this year. We still have not decided exactly how many, but we -- it will be less than in 2019, for sure. The main aspect here of savings is process automation, process automation and a reduction in the quantity of support functions in the bank due to this process automation.

**Q - Otavio Tanganelli** {BIO 20615779 <GO>}

Very clear, Candido. Thank you.

## Operator

Our next question comes from Eduardo Rosman, BTG.

**Q - Eduardo Rosman** {BIO 16314825 <GO>}

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

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

**A - Candido Botelho Bracher** {BIO 3158644 <GO>}

Okay. Thank you, Eduardo. As to the first question, I think you're right. I think funding has -- is becoming more tight in the market as the economy grows and the demand for credit grows, we are seeing more competition for funds. Also, as interest rates come down and the trend of investors to move more towards funds, there has been a concentration in the sources of funding, which explains more competition for funds. So yeah, so we do take

into consideration this scenario and the possibility that funding will be -- may be a bit costlier in 2020 when compared to 2019, as it was costlier in 2019 when compared to 2018. Always in relation to the basic level of the interest rates, of course. In nominal terms, it reduced because the interest rate reduced.

As to IRB and XP, I think these are both participations that we have because they make sense in our balance of income in the bank. So XP basically -- the participation in XP basically increases the balance -- the income flow from funding products, from investment products, and we think it's an excellent company and so we consider this a long-term participation. The same thing may be said about IRB in relation to insurance. I mean, insurance is a segment where we definitely think we are under-represented in the market. We strive to grow the participation of insurance in our business. And so IRB, it makes every sense for us to keep IRB's participation for -- on the longer term as well.

**Q - Eduardo Rosman** {BIO 16314825 <GO>}

Okay. Thank you very much.

## Operator

Our next question comes from Victor Schabbel, Bradesco BBI.

**Q - Victor Schabbel** {BIO 17149929 <GO>}

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

**A - Candido Botelho Bracher** {BIO 3158644 <GO>}

Thank you, Victor. There are many lessons learned with iti as we evolve in this platform. This platform that was created -- was received as mainly a payment platform. It's a platform to which we intend to add many different features, broadening the set of services that we offer. Here we are in learning mode. We are expanding fast the number of members in iti, whereas the monthly active users are progressing at a slower pace because we think -- I mean, we need to add more features to the platform. We are enthusiastic about iti, about the way it will develop in the future, but it's fair to say that we are at the very beginning of this journey.

**Q - Victor Schabbel** {BIO 17149929 <GO>}

Okay. Thank you. Thanks.

## Operator

Our next question comes from Eduardo Nishio, Banco Plural.

**Q - Eduardo Nishio** {BIO 15333200 <GO>}

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Good morning. Good morning, Candido. Thanks for the opportunity. I have two questions as well. First one is, if you could comment on cost of credit that spiked 70% year-on-year on the fourth quarter and also give a little bit of color of, you said that cost of credit should grow in line with credit in 2020, but when you see fourth quarter, it's kind of the opposite where you have a big spike in the fourth quarter and your 2019 numbers point to a 29% growth year-on-year on cost of credit. So if you could comment, give a little bit more color on that, I would appreciate it.

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

#### **A - Candido Botelho Bracher {BIO 3158644 <GO>}**

Thank you, Nishio. So with relation to cost of credit, I think that the point out of the curve was 2019 and not 2020. I think when we look at the 29% growth in cost of credit in 2019, we see specific cases, which we can clearly identify as well as also, even in smaller companies, specific (inaudible), there is specific vintages of credit, which were -- had problems, problems, which were tackled and had been dealt with and are now producing normally and -- normal results. So this is the main reason for us to expect that in 2020 we will come back to the trend of cost of credit evolving in line with the growth in the portfolio. So we are seeing no exceptional reason why it should not be this way, these exceptional factors which we can clearly locate in 2019.

With respect to earnings growth, I think there is a limit to what -- to the way you can run a bank looking only at your competitors. I mean, you should craze away a long-term strategy and follow. So on the first slide of this presentation, we talked about our long-term strategy, which is basically centered in the client, in improving customer satisfaction, and supply the three pillars of digital transformation, people, and efficiency. I'm very satisfied to see that the good results which we presented in 2019 were obtained in the same token. I mean, as we have improved in every one of these structural lines. And the results there, I think, they are impressive. I mean, to gain 27% efficiency, shorter time in our technology deliveries, to improve 9 points in NPS, to have a 2.1 point improvement in efficiency index. And these are not short-term movements. These are movements which continue over time, and I think that these are the movements that will grant us increasing earnings over the next years. I already mentioned in one or two questions why I think that the earnings growth in '21 will be bigger than in '20. And I cannot comment about our competitors' evolution, but I can say is that I'm pretty confident on the positive evolution of the earnings of Itau Unibanco.

#### **Q - Eduardo Nishio {BIO 15333200 <GO>}**

Thank you so much. Very clear. Thank you.

**Operator**

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Our next question comes from Carlos Gomez, HSBC.

**Q - Carlos Gomez-Lopez** {BIO 18107094 <GO>}

Hi, good morning and thank you for allowing the question. Wanted to ask you about the cost control. As you say, this is probably the most drastic guidance that we have seen from any Brazilian bank ever. And I wonder, I mean, does that mean that you are more conservative in terms of how the market can grow? Like, how is it possible for you to lower the cost with a growing loan portfolio and you have to do IT investments there? What are the main drivers for this cost reduction and how sustainable is it?

Second, in the long run, as you said, you are driving the bank for the future. In the next five, six years, where do you see the ROE of this business can be for Itau? And what will be the normalized payout that you will expect in those circumstances? Thank you.

**A - Candido Botelho Bracher** {BIO 3158644 <GO>}

Thank you, Carlos. So as to cost control, I mean, we have been delivering expenses growth below inflation for some time now, and this year was very good in this sense. These savings, they come mainly from process automation, from closing branches, from the layoff program that we made, and from changing the way of working in the bank, changing the structure of the bank, mainly relying less on support functions, I mean, saving and support functions. It's not doing less. It's trying to do better what we do more efficiently and so what is a big help from technology. I mean, we are seeing significant progress here. Let me tell you, I do not think this is not a challenging guidance. It is a challenging guidance. I think our guidance has to be challenging to stimulate the bank, but I think it's quite a good guidance. It's quite a -- perfectly feasible one, this one of cost control.

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

As to payout, we have a clear stated policy where the variables are known. And so it depends on lot on ROE, it depends a lot on the evolution of RWA, and so how you -- how we can grow with the market and all the changes, regulatory changes, tax changes that may happen. So this is the reason why we supply no guidance. Having said that, if in the future we see a downward trend in ROE and we see portfolios growing strongly, it would be expectable that payout should be reduced.

**Q - Carlos Gomez-Lopez** {BIO 18107094 <GO>}

Okay. Thank you very much.

**Operator**

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

**A - Candido Botelho Bracher** {BIO 3158644 <GO>}

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

**Operator**

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

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