Q3 2019 Earnings Call

Company Participants

- Candido Botelho Bracher, Chief Executive Officer, President, Executive President & Member of Executive Board
- Milton Maluhy Filho, Executive Vice President of Risks & Finance, Chief Financial Officer, CRO and Member of Executive Board

Other Participants

- Analyst
- Domingos Falavina
- Eduardo Rosman
- Jason Mollin
- Jorg Friedemann
- Jorge Kuri
- Neha Agarwal
- Otavio Tanganelli
- Thiago Batista
- Victor Schabbel

Presentation

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. As a reminder, this conference is being recorded and broadcasted live on the Investors Relations site at www.itau.com. B

pr/investor-relations. A slide presentation is also available on this site.

Before proceeding, let me mention that forward-looking statements are being made under the Safe Harbor of the Securities Litigation Reform Act of 1996. Actual performance could differ materially from that anticipated in any forward-looking comments as a result of macroeconomic conditions, market risks and other factors.

With us today in this conference call in São Paulo are Mr.Candido Bracher, President and CEO; Mr.Milton Maluhy Filho, Executive Vice President, CFO and CRO; and Mr.Alexsandro Broedel, Group Executive Financial Director and Head of Investor Relations. First, Mr.Candido Bracher will comment on 2019 third quarter results. Afterwards, management will be available for our 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, everybody. Welcome to our third quarter 2019 earnings conference call. I will start the presentation on Slide 2 where we show the main highlights of our performance for the quarter.

The recurring net income was BRL 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 noninterest expenses grew only 1% despite the seasonal effects of the collective wage agreement, which increased wages 1% above inflation. In the next slide, we provide a more detailed view of the figures.

On Slide 3, we show the value creation for the period. In this quarter, we created BRL 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 at our corporate book group annually for the first time in more than three years. Also important is the increase in corporate securities deals that we advised and structured for clients, as more than half of the total committed growth in 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 continued 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 the BRL 0.8 billion increase in our core 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 rate on our foreign investments overhead strategy as well as the lower financial margins 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 ta 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 whereas the ratio deteriorated 20 basis points in the individuals book as a natural effect of the change in mix of the current portfolio and expansion within our risk appetite. As expected, higher loan originations, 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. with the gray bars in this chart are the loan loss provisions. For the first time since the merger between Ita 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 line, I mean the ratios of NPL and our provisions over to the total portfolio remained stable.

Now on Slide 9 we present a breakdown of our commissions and fee revenues. As in previous quarters, the main highlights are our investment banking and asset management operations. Our investments open platform continues to accelerate, reaching BRL 172 billion in assets distributed. This represents a 50% growth in the last 12-months. The higher client base caused current account services to grew 3% in the quarter. We have also seen the credit and debit card operation continue 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 asset, our clients. We have 55 million clients and in the last 12 months, our current accountholders 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 Itau, we open bank accounts that create value for the bank.

Finally, showcasing the efficacy of our client simplicity strategy, our global net promoter score increased 8 points in just one year and current account closures reduced more than 29% in three years, an important achievement, albeit this is only the early stage of this journey.

Turning to Slide 11, we show that our noninterest expenses continues to be managed with focus and discipline. This is highlighted by it's 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. These efforts led to a cost-to-income ratio of 45.5%, the lowest in the last 10 quarters. This quarter we concluded the voluntary severance program. About 3,500 employees adhere to the program out of 7,000 eligible. This result is slightly above our initial expectation and led to a nonrecurring expense of BRL 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 BRL 7.7 billion as complementary 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's 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 credit portfolio to finish the year around the midpoint of the range. These higher expectations are related to a stronger demand for credit flowing from individuals and SMEs.

As a result, we expect our consolidated cost of credit to finish the year between the mid and the higher point of the guidance. As for the rest of the lines, our expectation remains unchanged with our financial margin 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. But for the commissions and fees line, we anticipate to finish the year between the mid and lower point of the guidance and we expect our noninterest expenses to finish the year around the lower end of the guidance.

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

Questions And Answers

Operator

(Question And Answer)

Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions). Our first question comes from Eduardo Rosman, BTG.

Q - Eduardo Rosman {BIO 16314825 <GO>}

Hi, everyone. I have two questions. The first one is on asset quality, right. 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, because I think that big gap in the provisions was pretty large quarter-on-quarter.

I ask that because when we look to income commitment that level with the Central Bank, we are able to see already a small deterioration right despite the much lower selic. Probably, I would assume that this has to do -- that the wages have been lagging, so I just want to know this is a concern for you and is this a concern for your growth on the individual book as you think about next year? And then I'll ask my second question later

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

Hi, Eduardo. Thanks for the question. I wouldn't say this is a concern, but it's of course an item to which we pay a lot of attention and very -- we follow very, very closely. We understand this small NPL decrease in the retail book to be a normal effect of the change in mix of these lines. We, as I said, follow this closely and we see nothing extraordinary there. We understand this is a expected effect.

I understand what you mentioned about the Central Bank report, which points to worsening in the credit quality in credit card specifically. Our own industry is 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 report.

Q - Eduardo Rosman {BIO 16314825 <GO>}

Perfect. Thanks a lot, Candido. My second question, I know we still don't have the budget for -- the budget or guidance for next year, but we are already at the end of 2019. So, wanted to know if you could share a little bit your initial thoughts about next year? I know that you expect, I think everybody expects a better economy, right? So I want to know if you could share some thoughts on outlook. Does it make sense to expect no 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 was -- which has been a big challenge, I know you did a pretty good job over the past couple of quarters, right. So you still think it's possible to go above inflation next year? Insurance on the other hand, you've been restructuring, but it's still kind of a drag on the results. So I would have assume an enter into the big line, so when do you think that could improve? Costs, you've been very vocal about it. So if you could -- we have also tax rate increasing, rate. So if we add everything up, do you still think that we could see better line expansion next year? If you could share some brief thoughts it would be very interesting. Thanks a lot.

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

Okay, Eduardo. So I will give you a brief overview of the general scenario for next year, but I will not go into detail in each of our lines of business, since we haven't studied them in detail yet. So we see strong economy next year, at least strong compared to this year. Our economy's forecast GDP growth is at 2.2%, I even think it can be more than this. So we expect the credit portfolio and services to keep on improving.

Of course, we also expect the competitive scenario, I mean, competition to increase as we've seen in recent quarters. And then 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, with the approval of the banking reform it is to increase from 15% to 20% again. And second, the lower interest rates scenario, we think that the interest rates may be even lower than 4.5% next year, the overnight interest rates. And this affects the many lines our balance sheet. I mean the earnings on our own capital, the earnings on our growth generated by services and the results of our overhedged book. So there are -- there's a mix for next year of positive expectation with the economy and some specific headwinds which will definitely have an impact on our results.

Q - Eduardo Rosman {BIO 16314825 <GO>}

Okay. Thank you very much, Candido.

Operator

Excuse me. Our next question comes from Jorg Friedemann, Citibank

Q - Jorg Friedemann {BIO 15405752 <GO>}

Thank you for the opportunity to make questions. I have two questions as well. If I go with the first, we noted that in the quarter risk-weighted assets increased BRL 40.5 billion, well above the growth in loss. In addition, your Tier-1 is now running after the dividend at 14.1% which is, just 60 basis points above the target that you guided to the market at 13.5%. So, my first question, taking all of this into consideration is first to understand if the RWA increase is transitory or if this should be a recurring ahead? And if you see room to continue paying dividends, the payout at the average of the last three years above 70%? And then I'd make my second question. Thank you.

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

Thank you, Jorg. Thank you for the question. As we have been stating in -- for quite some time, dividends are the consequence. I mean, dividends are not a target, we do not target a specific dividend distribution on a proportion of our profits. Dividends, I mean, the capital which is idle about 13.5% of the Tier-1. So, I expect RWA to continue to grow, I expect that we will have profitable opportunities of using capital in project and in other areas of the bank. Having said that, I think we still -- our capacity to generate capital is rare of the possibilities of use of capital that we see on the short-term. So, as a consequence, I see continued distribution and still be significant looking forward.

Q - Jorg Friedemann {BIO 15405752 <GO>}

Perfect. Clear. Thank you very much, Candido. And then my second question, I see that you have approximately BRL 37 billion in net tax credits in your balance sheet. As a result of the tax increase implied in patient reform, I think this is expected to be reassessed at the new rate they're generating an extraordinary profit, right. In my numbers this accounting profit could be approximately BRL 4.5 billion. So just wondering if this makes sense for you? And what 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 lines of the balance sheet that you'd like to reinforce? Thank you.

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

Thank you, Jorg. Yes, you're right. I mean just from past experiences this lifting of the market in this innovation in the taxes, I mean will generate a profit over this BRL 37.5 billion. I mean we still have not decided on, how to apply this profit, I mean this is a decision that we will take during next quarter and announce together with the last quarter results.

Q - Jorg Friedemann {BIO 15405752 <GO>}

Perfect. Sorry, I just couldn't hear exactly your estimates of the profit generated. Could you please repeat, Candido? Thank you.

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

You didn't hear because I didn't say it, Jorg. We still didn't talk about it.

Q - Jorg Friedemann {BIO 15405752 <GO>}

Okay. Perfect. Thank you.

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

Thank you.

Operator

Our next question comes from Jason Mollin, Scotiabank.

Q - Jason Mollin {BIO 1888181 <GO>}

Hello, everyone. My first question is on Ita's focus on cost efficiency. Could you provide more color on the voluntary severance program you disclosed already that 3,500 employees participated, around half of those that were eligible. What are you expected cost savings versus the BRL 1.4 billion after tax charge? And do you see more programs like this in the future? That's my first question. Thanks.

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

Hi Jason, Milton Filho take this question.

A - Milton Maluhy Filho {BIO 15220856 <GO>}

Hi, Jason. How are you?

Q - Jason Mollin {BIO 1888181 <GO>}

Hi, good. Thank you.

A - Milton Maluhy Filho {BIO 15220856 <GO>}

Okay, great. Well, about the effects of this program. What we can say is that we don't foresee longer term any program like that, this is something that last time we offer 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 public and people from our employees from our bank, providing them the opportunity to do a transition in their career. And specifically because important part of this public were stable, somehow they were protected by law. So the only way they could achieve or move or do a career transitions were with this program. So this was the main reason why. So we had 7,000 people and we had the adoption by 3,500 employees.

When we say that we had this major impact of BRL2.4 billion before tax, I would say that some of it is for labor discussions in the future. So we know the history of this, specifically of the public, that's why we made some provisions according to that. Some are costs that we had when you dismiss the people for regular cost of that, if somewhere 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 near -- in the coming years, especially because important part of that was stable employees. And with that, we have had this important impact in this quarter. So 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 3,000 employees below what we had by the year end of 2018 in Brazil annualy. We expect to be very focused on that in the coming quarters. So, very disciplined in terms of headcount, in terms of growth. So the idea is to keep this trend.

Q - Jason Mollin {BIO 1888181 <GO>}

That's helpful. My second question is on Ita's international presence and strategy. Could you provide an update on the outlook for Chile which represents, I think the last calculation I think it was around 17% of the loans for the group. And how Ita will use it's exposure in Chile? And maybe you can also talk briefly about it's small, but about Ita's position in Argentina and exposure there? Thank you.

A - Milton Maluhy Filho {BIO 15220856 <GO>}

Okay. Thank you, Jason. Yes for Chile, I mean, it's 17% of the loans as you know. Our ownership of the bank is slightly above 30%, around 35% of total capital. And our participation is 38% now -- sorry, our participation is 60% to 62%. The margin participation was 62%, 63%.

We see the bank evolving well in an economy which is still facing it's difficulties. But -- I mean we are progressing consistently in perfection in -- I think in the management of the bank of implementing new technologies which we have in Brazil evolving in the technology area, which is the bank, it's results of mergers and so on.

So we see a positive evolution in our Chilean operation. Naturally, I mean, we were concerned 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.

Cash flow in 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, we've grown accustomed to depreciating revenue with the volatility in the markets 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.

Q - Jason Mollin {BIO 1888181 <GO>}

Thank you very much.

Operator

Our next question comes from Otavio Tanganelli, Credit Suisse.

Q - Otavio Tanganelli {BIO 20615779 <GO>}

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 material acceleration in the last quarter. So, I would just double check with you, if you still think that the bottom end 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 had increased a little more than 28%. So, I wanted to understand what's driving this very good increase on revenue figure? If there is a migration for funds that charge a little higher management fee or is some funds performing very well on the Ita assets? So, if you could get -- give us a little more color on that, it will be great. Thank you.

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

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

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

And in asset management, the fees growth have been derived mainly from higher volumes, especially in the open platform. And from performance piece, you were right. And so the first which were performing are performing positively and this has been granting some increase in fees along with higher volume invested in this part. So the volume is easier to forecast the performance of the funds, and we invest our best currency in managing this. But I mean, they are more difficult to anticipate.

Q - Otavio Tanganelli {BIO 20615779 <GO>}

Very clear. Thank you.

A - Milton Maluhy Filho {BIO 15220856 <GO>}

Thank you, Otavio.

Operator

Our next question comes from Thiago Batista from UBS.

Q - Thiago Batista {BIO 15398695 <GO>}

Hi, guys. I have one question about the quality of the clients that are opening the bank account in the banks nowadays. Let me review a bit of the number of bank accounts. So, all the players impact large, so obviously, it impacting larger banks, so everyone are open at 3,000 -- 32 million of clients during the year. So can you give you your view of this trend? And the quality of these clients -- 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 do you guys are seeing this boom in the opening of an account in Brazil?

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

Hi, Thiago. So, 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 of accounts we open based on really investing in this activity. And as we mentioned, I mean, we are satisfied with the parts of the accounts. As well it's a general trend I can say that accounts opened typically tend to have a better quality than accounts who open this We are working very intensely on our digital products in order to narrow this gap, but the accounts opened at the branches are still show significantly better quality than the ones opening through apps. What else did you ask?

Q - Thiago Batista {BIO 15398695 <GO>}

If it's too much -- if you are seeing a kind of cannibalization of your client base?

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

Cannibalization! Not yet cannibalization. We may experience some cannibalization now from which we are launching as you know, which has a payment account, and it's a cheaper product than the regular accounts that we have. So there we do experience some kind of cannibalization, it's almost sure to give you, though these are complementary topics I mean I think we will have a lot of accounts opened by our new project, which we are not reaching today, and we will start reaching with. 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 move those clients to ourselves than to new competitors.

Q - Thiago Batista {BIO 15398695 <GO>}

Okay. Thank you and congratulation for the results.

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

Thank you.

Operator

Our next question comes from, from Jorge Kuri, Morgan Stanley.

Q - Jorge Kuri {BIO 3937764 <GO>}

Hi. Good morning, everyone. And congrats on the numbers. My question is on credit growth. And If you could please provide some color on what you're seeing on the credit market on the different key categories? Your credit card business is growing up 20%, your car loans are up 19%, personal loans also 20% plus, percent SME. And you saw for the first time a recovery in corporate lending. So what -- how do you characterize what's happening in each of those buckets?

And what is your outlook for the next 6 to 12-months? To what extent this pace of growth going to continue, and is it needed to have a strong economic recovery or not? Employment, are you seeing, this growth come from much better financial conditions as rates are lower and the consumer has the leverage, SMEs have deleveraged. And so just help us understand what's happening and what's driving all of this and what the sustainability of it is going forward? Thanks.

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

Thank you, Jorge. 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 in this -- for borrowing. I was just looking at the figures today, the central bank deposits, an index called ICC, which is the cost of credit, the global cost of credit. And the deposits ICC for the -- deposits for the results in, for the resources which are not designated to someone specifically.

And since, the interest rates started to fall in September 16, theSelic has fallen by 8.8%, while the ICC has fallen by 22.8% So, I mean, 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, we'll benefit a lot from this, the other lines as well. And of course, I mean, higher market activity. We expect unemployment to improve and this also increased demand. So I don't think that the rate of increase in demand for loans will increase. Actually, I expected it to taper a little bit. But we will have positive growth -- as if we may have positive growth for quite some time yet.

In the corporate market trend, it's much more difficult to forecast. Because the demand for funds is there, as we see the investor appetite really increasing in the economy. But if this companies will borrow from banks or from capital markets, we would have planned very much on more specific conditions. I think this quarter, we -- capital markets were a bit tired of fixed rate loans. There was a bit of oversupply in the capital markets. We saw strong credit funds specifically having to sell some assets. So I think that is provoked a turn in the demand towards the banks, and this is why portfolio in the banks grew. I mean, it's not certain that the situations will continue in the next quarters. Thank you.

Q - Jorge Kuri {BIO 3937764 <GO>}

Thank you.

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

You're welcome.

Operator

Our next question comes from Victor Schabbel from Bradesco BBI.

Q - Victor Schabbel {BIO 17149929 <GO>}

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 for better visibility on a product-by-product basis, which one would you see as more promising going forward, given the strong growth Ita had in your credit cards, for example? While order 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 and the market in the coming quarters and in coming year? Thanks.

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

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 or payroll loans. And this I think is one of the reasons behind the higher increase in NPL I think in the individuals portfolio. So, looking forward, I wish we will grow more than we've been growing in these safer lines of credits like mortgage and portfolio. And then there are more limits to grow in the credit markets which are more opened and don't depend so much on you having specific access to recoveries and it create special situations like this.

Q - Victor Schabbel {BIO 17149929 <GO>}

Thank you. Thank you for that.

FINAL

Bloomberg Transcript

Operator

Our next question comes from Ehikna Wahu[ph], Santander.

Q - Analyst

Hi. Thank you for the opportunity to make some questions. My question is more on the acquiring business. This revenue line has been down here, 20% year-over-year. I believe we might expect some continued pressure for the 4Q. So my question is, when do you believe we are going to see this declining patch to stabilize? I mean, should it be doing 2019 or it might continue throughout 2020? That's my first question.

The second one is, if you could share highlights on the new commercial proposals from the REDE Card on the acquiring business. When do you establish the end of the prepayment rates on credit card transactions, Now the evolution of pop credit card. Any news you could share with us? I mean, market share you are targeting, it has been successful are you having success or not? It will -- I would appreciate. That's it. Thank you.

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

Okay. Thanks for your question. You're right, I mean, so the income from the acquiring business has been increasing. 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 mean, I make some mental comparison between the acquiring business and what once were current accounts.

Current accounts has always been a product which was not specifically, especially profitable, on the contrary it was relatively a drag on the results. But it was a very important product in order to distribute all the lines of the other financial products. So you must see it under a portfolio view rather than a specific product. We have as a result of our initiative on the T+2 in May, I mean, we have gained market share in the companies with earnings of BRL 30 million a year, which was our goal.

We are satisfied with this growth, I think it clearly responded to our employee expectations and we keep on growing there. But we lost more market share in the large corporations than we gained in these small ones. In the large corporations, as you may know, competition has been very intense and at prices which, I mean, are not reasonable. A lot So when we have not been participating in this competition at the cost of losing global market share in this segment.

We persevered with our initiatives in the lower segments, and in our credit card, which is holding positively. And it's a very difficult market. 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, working quite intensely on cost control in this area so as to be able to reduce prices even more.

Q - Analyst

Okay. Thank you very much.

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

You're welcome.

Operator

Our next question comes from Domingos Falavina, JP Morgan.

Q - Domingos Falavina {BIO 16313407 <GO>}

Hi, Candido and team. Thank you all 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 can say that. I was wondering if you could update us, we are getting basically two counter-intuitive bottom lines. The first one is that, and it's not a perfect metrics, the data we have 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 somewhat 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 and you look at your average book and you look at the new book and that mix change, is that a scenario where we could see no margin compression?

The second is more negative, on cost. So we have only cost of risk as disclosed by you on IFRS, not on brazilian GAAP. But when we decompose the change in the mix, we're getting scenarios where no cost of risk could increase provisions can grow 20% plus percent year-on-year. How your data indicate those two figures?

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

Domingos, we have really We're not guiding, so I will be very generic. What limited in what I say. I see, I mean, during this year we had a pressure on specific that You see, in the financial margin with clients, it decompose the effects 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 see some of these will continue during next year, but there's a limit to -- in the -- as I said in my previous answer, And then I would expect that we would grow more now in lines, which have a lower spread but also better quality of credit, like mortgages or payable loans. But, yes, you are right, I mean, this effect is something there is a change in mix which counterbalances, even if only partially the pressure on spread.

And as to the cost of risk, I mean, as I have shown in the page on slide 8, you see that I mean the cost of the provisions which are the gray bars, I mean, they increased along with the growth in portfolio, and maintain the same 90-day -- and this is only for the retail bank, maintain the same rate -- I mean the third NPL rate and provisions over average portfolio. So when the portfolio grows, it is to be expected that provision should also grow.

Q - Domingos Falavina {BIO 16313407 <GO>}

Yes. But I think what I meant is that you have a lot of reversals on the corporate and those reversals should not happen next year. So if we apply, I don't know, deal 2, deal 3 cost of risk to large corporates, which is not high, we get more than 20% provision growth year on -year. I understand, retail looks okay, but just the support from wholesale won't be there. Do you do any analysis on that, one that you could share?

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

Yes. I mean, you see, I mean, this quarter, we had no reversals at all. I mean, we didn't touch the -- there were no effects in the complementary provisions. And I think, I mean, their view, you're right, I mean, their view in the did not move into the complementary position than what has been in the past.

Q - Domingos Falavina {BIO 16313407 <GO>}

Okay. Thank you.

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

You're welcome.

Operator

Our next question comes from Eduardo (inaudible)

Q - Analyst

Good morning. Thank you for taking my question. Good morning, Candido. Two questions as well. 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, it's frequently changing the composition and we see probably real rates going to 1%. I think it was the scenario a few years ago.

So, if you could share with us your general thoughts on how you see the economy evolving, the competition? how the bank is preparing itself and how you see volumes, credit volumes mix, spreads, fees, expenses moving forward the next few years and going beyond to 2020? And your general thoughts on -- I mean how the bank is preparing itself.

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 if -- how do 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.

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

Thank you, Eduardo, for the question. You're right, on your first question concerning the interest rates in the scenario. And we are on uncharted waters here. We have not seen interest rates that low in Brazil,. And which lead us to believe they will remain low for quite some time. I mean, we have the inflation, I mean, does not show any legal pressures.

And there is, as you know, I mean, still high unemployment in the country, which I mean we saw the bad things that comes with it There is 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.And this -- I mean, we've seen this in other countries that we had in the past. I mean, you can look at the sequence of years of growth, albeit modest growth, but stable and growing growth with low interest rates, I think the economy thrives and the financial system thrives with it.

So I think there will be possibilities for increasing the loan books and to put capital to work more. Then in the previous question, I think RWA is bound to increase, and we'll be able to work in different lines of credit, improving different lines of credits. All this while we're 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 the positive for the financial sector, and especially for the banks established in the market.

And in relation to the complementary provisions, I mean, we're not giving forecasts here because as you can clearly see, the things depend very much on individual means, it's volatile and so on. But it's a fact that in the event of bad loans which can be recovered has been reducing over the last two years. And so we have a smaller inventory going forward, it would be natural to expect less movement on the complementary provisions going forward.

Q - Analyst

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

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

This is not what I'm seeing, I think not a growth as high as 20%, I mean don't expect demand to increase that much. I mean I would see probably more low to midteens for individuals. Anything for corporations it's even more difficult to forecast, but certainly lower than this.

Thank you.

Operator

(Operator Instructions) Our next question comes from Neha Agarwal, HSBC.

Q - Neha Agarwal {BIO 16508665 <GO>}

Hi. Thank you for taking my questions. And congratulations on the results. Two very quick questions. First you recently launched the product family, and there's already seems to be good uptake in the market. What is your plan with the product? How would you incentivize consumers and merchants to yield the ET application? So, are you giving any rewards our cash backs? Or what is the 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's really hard to say when that's going to stabilize. And we've seen pressure on others also with the fee income as well. So, would it be fair to say single-digit fee income growth in the coming 2, 3, 4 years maybe? Thank you so much.

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

Thank you very much. Well, on each year we are leaving important days as you 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 first and we are starting to devote it more. The product is still has few features, and more features are going to be added to it as we develop. But I think it's a very -- I mean it has a very -- proposition very good proposition, especially to small merchants who are able to sell and collect at a much lower rate than the alternatives. And yes, I mean, there will be more features coming -- going forward to the front. We are still in the first phase of this offering. I think next quarter we will be able to talk in more detail about it the evolution of ET.

In relation to fee income, yes, I mean you're 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 optimist when I look at the future, I mean, the open platform in insurance is evolving positively now. I mean we are seeing a good evolution there. Investment banking and asset management are also in good perspectives. Cash management in general has been evolving well and tends to evolve well in line with this credit growth. So, as credits grow -- I mean traditionally we 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.

Q - Neha Agarwal {BIO 16508665 <GO>}

Thank you so much. That's very helpful.

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

Thank you.

Operator

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

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

I just want to thank you all, I mean for your presence and the interest and the good questions. Thank you very much.

Operator

That does conclude our Itaú Unibanco Holding Earnings Conference for today. Thank you very much for your participation. You may now disconnect.