

# Y 2013 Earnings Call

## Company Participants

- Roberto Egydio Setubal, Chief Executive Officer, Vice Chairman of the Board of Directors, Member of the Executive Board

## Other Participants

- Carlos Macedo, Analyst
- Jorge Kuri, Analyst
- Mario Pierry, Analyst
- Philip Finch, Analyst
- Unidentified Participant

## Presentation

### Operator

Good morning, ladies and gentlemen, thank you for standing by and welcome to Itau Unibanco Holding Conference Call to Discuss the 4Q '13 Earnings 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. (Operator Instructions) As a reminder, this conference is being recorded and broadcast live on the Investor Relations website at [www.italu-unibanco.com/ir](http://www.italu-unibanco.com/ir). A slide presentation is also available on this site. The replay of the conference call will be available by phone on 5511-4688-6312, access code 1576884# tag.

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 risk and other factors. With us today in this conference call in Sao Paulo are Mr. Roberto Egydio Setubal, Chief Executive Officer; Mr. Alfredo Egydio Setubal, Executive Vice President and Investor Relations Officer; Mr. Caio Ibrahim David, Chief Financial Officer and Mr. Rogerio Calderon, Cooperate Controller and Head of Investor Relations.

First, Mr. Roberto Setubal will comment on the fourth quarter 2013 earnings results. Afterwards, management will be available for question and answer. It is now my pleasure to turn the call over to Mr. Roberto Setubal.

### Roberto Egydio Setubal {BIO 1525746 <GO>}

Thank you, and good morning, and good afternoon for all of you. It's a pleasure to be here with you and to show our results for the year and for the fourth quarter. I'd like to start, I guess that all of your are following the presentation on the Internet. So let me start at page two with the highlights of the quarter. We had a very strong quarter, R\$4.7 billion net income. I think it was strong in all the lines, we have margins with clients growing, we have margins with market also very strong compared to previous quarters. Our loan loss expense is down. So it was supposed to be the part of sales, so commissions and fees, we have major improvements in the fourth quarter. There was some seasonality there, but it was also very strong and efficiency ratio improvements although the non-interest expenses did not perform as well as previous quarter, but we still had a strong year with advances [ph] running in line with inflation where we've got comparable basis, discretion of EBITDA.

The loan portfolio also had a percent [ph] growth in the fourth quarter. And we've seen this on the presentation. Moving ahead, our ROE when we exclude market revenues are improving, we are operationally very strong. We present operational ROE of 24%, which is quite recurrent in my view and we see some volatility in the market line, but the operation of the bank is quite strong although we have considered a seasonality, which is positive in the fourth quarter.

ROE is also improving, as you can see in the fourth page, having the highest level since the merger of Itau Unibanco. So this shows how strong is our operating model. The results were strong in the fourth quarter, as I mentioned, better than the third quarter, much better than last years. For the full year, we had a net income growth of 16% [ph] and it's important to mention that although when you compare year-to-year, margins with clients have declined. In the fourth quarter, it shows growth. So we are already in the move of growth and we have fully adjusted our risk appetite in terms of the impact on the revenue side.

So from now on, we expect growth and we are having growth in the margins with clients since the second quarter and we will have a growth for the next year. Market line revenues with market has been very volatile and we expect it to keep in very high level volatility of the market (technical difficulty) our results although it was -- we had a strong quarter in the fourth of 2013.

The revenue from fees and commissions were also strong. This is a quarter of major (inaudible) seasonality and we performed it quite well. Since revenue came in line with our expectations, and we are concentrating more our business in lower-risk lines and I'll talk about that, so the net of revenue after claims is improving, seems to work it out in other lines.

Loan losses is improving, still improving as you can see, year-to-year, we had a 23% decline, which was positive. In the quarter, we had a 7% decline and we still expect some additional decline going forward. Expenses for the year were 7.4% and the growth that I'll show you, that in a more recurrent basis, we are pretty much in line with the 5.9% inflation that we have this year.

We had some non-recurring events. I won't talk about that as we basically had (inaudible) for the results of the quarter and for the year. So if you have some questions, please ask us. The loan portfolio had a strong growth in the fourth quarter, even if we do not consider the acquisition of any (inaudible) that we incorporated in our credit card, which we incorporated in our balance sheet in December. We had a strong growth, which means that we are already coming back towards the growth of (inaudible) vehicles portfolio as to declining.

This change in our risk appetite has made a big change in our financial margin with clients as you can see in the page eight. We are reducing the risks, so the revenues mix are changing in line with that.

And as we can see on page nine, this has brought in very important results for the Bank. The strategy has clearly paid out because you can see that although the cross spread is declining with a level of 13.4% and now it's 10.9% although, we have reached some stable points on loans. And when we consider the net spread after the loan loss provisions, we are already increasing it slowly, 7.9% net spread compared to 6.9 in the fourth quarter of 2012, so a major improvement. This was reached although the gross spread has declined.

In terms of credit quality, we're still improving our NPLs has declined towards the lower level since the merger of the bank, we are at 3.7 level in the fourth quarter. And this was impacted in 10 basis points by the incorporation of credit card portfolio. Although we see some additional reduction in the delinquency, we believe that most of the improvement is already shown. So we -- although we expect some improvement, it will not be the same amount as we had in these rest of months.

Provisions are declining when we compare to -- in absolute levels or also compared loan portfolio. This has shown the improvements that we had. When we look at the short-term NPLs on page 12,

we can see that this is already at a stable level and again it's the lowest level since the merger with Unibanco and we can see clearly improvements coming on the consumer side although on the company side we had some deterioration in the year and (inaudible).

We don't see this as a trend. We expect that companies will be in a stable level that we were (inaudible) small deterioration that we had in this quarter was due to a few clients that went (inaudible). When we go and see the revenues coming from market, we see that we had a good quarter, much better than previous quarters and more in line with the year of 2012. This line that we expect volatility going ahead, we mentioned about that is how we would like to perform. So I will give (inaudible) in terms of what can we expect above this line in the coming quarters.

When we look at the fees and commissions revenues, we can see that all the lines have been improving, especially the credit card lines, which we have incorporated in Uruguay [ph] and we are incorporating credit card, so it will keep on growing, and but all the lines are growing. And we -- this was part of our strategy when we announced the change in our risk appetite. We also mentioned that we would put more efforts to grow service revenue and I think that we are in line with this strategy; we have acquired credit cards, 50% of credit card and also credit card which will keep our momentum on (inaudible) from sales revenue.

On page 15, we can see the banking and insurance operation (inaudible) of them, which shows the performance both in the bank and the insurance. Both businesses are performing quite well. We are having a ROE of 25% when we analyze the banking operation, which is very strong. So banking operations are in a very good momentum with all the basics in line with this Group (inaudible) is the leading franchise in terms of performance in Brazil, its base.

Insurance is performing well, we believe that we can grow that business in the more relative basis with bank, in a more -- aligning more as a bancassurance and (inaudible) that we believe that what we will do in the future.

In the page 16, you can see that our insurance net income breakdown shows that we have a low level of risk in our insurance portfolio. We worked very hard in order to focus on the technical results. So this means that our business, it's a low claim business and we have a component ratio of 71%, which is a very strong performance for insurance operation. And we will keep the business in that structure, we will not move to higher side of segment of officials [ph]. And by the way, we are moving out of the (inaudible) large business of insurance, which we believe is not in line with the bancassurance (inaudible).

The non-interest expenses, as I mentioned, for the year was in line with our objectives of being below in line with the inflation. When we compare with last year, where we had a 5.9% on comparable basis with this regard, so it was a good year, although the fourth quarter was not as good as we would like compared to the third quarter, but we keep this objective of growing expenses on the inflation level for the coming years.

All these improvements in our (inaudible) reduction on losses has been our risk adjusted efficiency ratio achieved 65%, which means that we have 35% pre-tax profit to revenue ratio, which is a very strong ratio and we are very happy about the achievements that we have had more recently in the kind of ratio. We (inaudible) the year increase by 9% in our shareholders' equity, which (inaudible) to Basel III.

Our ratio today is 16.6 per day, 16.6 as you can see on page 20. It's a strong number for the time being and we believe that we'll be fully at Basel III before 2019 although we have some questions about domestic seats and (inaudible) so far. But the strong base of capital that we have today made us very, very confident that we will need not additional capital. Especially using the very strong capital generation that we have (inaudible). When we see our credible bottom of our shares

and sort of, I think, gets very strong. We had to be at the base point. We had almost 18% of the volume of Itau, but Itau -- the liquidity of the shares are very strong. And this is good for investors.

When we look our numbers in IFRS, which are more comparable to international standards, we can check that our net revenue is even more bigger than the one we find in Brazilian GAAP, which gives you a clear idea of the quality of operational (Technical Difficulty) the Bank is going through at this moment. We are running -- we run at 12 -- 24.6% ROE in the fourth quarter in IFRS along with a very strong results.

In the year of 2013, I think we could achieve all the guidance that we mentioned to you at the beginning of last year. Some of them were both the previous outlook that we had and now looking on page 24, we are looking at the year of 2014 and given those guidances for the year, we expect the loan growth to be in the range of 10% to 13%. This basically is based on a range of growth of Brazilian economy of 10 -- of 2% to 2.5% and the currency more or less stable at the level that we have today.

Loan loss expenses, net of recoveries, so this is a different guidance than the one we -- different cost that one we gave you last year, specifically, we are talking about provisions net of recoveries, the range that we're looking is between R\$13 billion and R\$15 billion. Revenues of service plus insurance, we believe in a growth of 12% to 14%. And this already includes credit card revenue that we are adding next year. And non-interest expenses grew 10 to 12.5, but this growth expects that we will have next year of credit card.

So we felt that we're usually talking in between 5.5 and 7.5, but we would like to improve in order to keep it more -- below inflation, so we believe that we will be able to do it, but the current guidance is this one [ph]. Efficiency ratio in that conditions, we believe that we keep on improving and the range, our efficiency that we -- I think the variance of improvement that we expect for the year of 2014 is between 50 and 175 bps. So those are the numbers that we are looking at in 2014.

Let me talk a little bit about the Itau -- CorpBanca deal. It was a merger, a merger with the CorpBanca that is a Chilean-based Colombian bank. With that merger, we've reached -- we are merging our Chilean operations with the bank and we will be controlling that Itau CorpBanca (inaudible) and we have become the fourth bank in the Chilean market. It's always interesting to remind you that a Chilean market, financial market is bigger than Mexican and Argentine market, so it is different from Latin America market, so it's a really important market (inaudible) in Latin America.

And in Colombia, we will be -- the Colombian bank in terms of our size. This deal was done in a way that we believe that we will be accretive soon after we have the synergies done. So it's a well-priced deal for our synergies. After that deal, as we can see on the page 26, we can view, have a consolidate in our balance sheet, an important amount of credit to loan out of Brazil -- outside of Brazil in local markets in Latin America that will represent 20% of our total credit portfolio.

This shows -- these are -- I think it's an interesting thing for our shareholders because it gives us some new diversity that we did not have in our balance sheet, and we'd like to have diverse in terms of not as much concentrated in one market. And at the same time, we are moving into markets that are outgrowing Brazil because we have more growth perspective in those markets because those economies are outgrowing Brazil and also the growth, we have a lower level market share, which allow us to have a higher growth in those markets. So, we are moving into markets that we believe that we will bring additional growth for the future.

Having said that I open for questions. Thank you very much.

## Questions And Answers

## Operator

Ladies and gentlemen, we'll now begin the question-and-answer session. (Operator Instructions)  
Our first question comes from Carlos Macedo with Goldman Sachs.

### Q - Carlos Macedo {BIO 15158925 <GO>}

Good afternoon, Roberto. Gentlemen, thanks for the opportunity to ask questions. Congratulations on the very strong results for the quarter. I have two questions; the first one is related to margins. Could you give us some color on what your expectations are for 2014? Just doing the math on your guidance, it looks that if you're right at the middle of the guidance, for all the different items, your managerial financial margin will have to be up 14% year-on-year, which seems a little bit high; given the 10% to 13% guidance you had at the launch.

If you give us a little bit of color on what you expect in terms of guidance in order to understand those numbers and then put them together?

The second one is also on top of the guidance, looking at the numbers that you have in your results for credit card, it appears that expenses for the company around maybe 3% of Itau's [ph] expenses and yet we have 5% higher for credit -- the guidance including credit card is 5% higher than that of Itau. Is there room for improvement there in that specific one, I mean, are there any synergies that you'll be able to get so that maybe that 5% is not included? Is that 5% including also some of the amortization of goodwill in the credit card acquisition, some color there also be welcomed? Thank you.

### A - Roberto Egydio Setubal {BIO 1525746 <GO>}

Okay. In terms of the credit card expense -- in terms of expenses you were absolutely correct. These numbers includes more goodwill amortization for credit card in the number, I mean, pretty (inaudible) operational expense month to month about R\$130 million. So if you multiply this by 12 it will reach R\$1.5 billion plus (inaudible) that we plan to do next year of the goodwill, it will reach a number that will be very close to those 5% that you are mentioning. So those are -- you are absolutely right, those are the numbers.

In terms of margins, you made up the numbers, I've not seen your numbers, but as I mentioned during the presentation, we expect that margins with clients to be growing. I do not expect them to be outgrowing the level of growth that we will have in the portfolio. We are running -- the portfolio is running into a direction of lower risk because we are growing more of the credit -- the mortgages business and Consignado business, which are lower margins business compared to -- and also the big companies, big corporations, those are the business that have lower margins although lower losses as well.

So we are (Technical Difficulty) in terms of revenue into a different margins, in terms of running into the direction of a lower level of margins before losses. And we believe that the higher level margins after loan losses. So we -- so the numbers that we made up, I'm not sure why, showing higher growth on margins that we would expect from the clients. We also have an additional number there, that is the revenues with markets, which are more uncertainty, okay, we have more of that. Although we expect growth coming from this year of 2013, which we had very low -- much lower level of market revenue, if you compare to previous years. So we do expect some improvements in that line.

### Q - Carlos Macedo {BIO 15158925 <GO>}

Okay. Thank you, Roberto. Just one final follow-up. Would it be fair to say that there -- that there will be synergies in credit cards then and maybe that 5% will actually end up being 5%?

### A - Roberto Egydio Setubal {BIO 1525746 <GO>}

Yes. We expect synergies although depending on how faster we implement them there you -- because when we integrate the company before you'll have the benefits, you have some additional costs. So this might impact negatively, although not in a meaningful way, okay, see, in the short term, but down the road, we have -- we do expect synergies coming from credit card.

**Q - Carlos Macedo** {BIO 15158925 <GO>}

Okay. Thank you, Roberto.

## Operator

Our next question comes from Mario Pierry with Deutsche Bank.

**Q - Mario Pierry** {BIO 15055554 <GO>}

Hi. Good afternoon, everybody. Let me ask you two questions as well, Roberto. First question is related to loan growth. As you mentioned, the margins of clients are rising, asset quality is completely under control, you mentioned also that the risk appetite is improving, but you're only guiding for loan growth of 10% to 13% in 2014, which is roughly in line with what you've reported in 2013. So I was wondering why not guide for higher loan growth, what really concerns you about the Brazilian economy, we've seen all this volatility, rising interest rates, weaker currency. If you could give us your perception of the Brazilian economy, why you shouldn't be growing faster given there are we're seeing better spreads and asset quality under control?

Second question is related to your expansion on -- we think that this was a great transaction with CorpBanca, you now have a very nice footprint in Latin America, but I was wondering if there is any appetite for the Bank to expand outside of Latin America? Would you consider any expansions in developed markets? Thank you.

**A - Roberto Egydio Setubal** {BIO 1525746 <GO>}

Okay. Talking about the loan growth; we have in 2013 an important impact of the exchange rate, which index range that we are giving you in terms of guidance, we do not expect -- we don't have any important impact in that range. If we have an evaluation, this might impact positively the growth. If you have an appreciation of the reais, this might impact the (technical difficulty) important.

In 2012, we had also -- I mean, in 2013 we had also the good growth that was impacted by credit card incorporation that is in our balance sheet. So these positive things should take out those two things we've been talking about the number that we -- closer to 10% for 2013, which compares to 11.5, the middle of range that we are giving.

So there is some more growth here, it's true and but not that much growth. We expect a lower growth in the Brazilian economy in 2014 compared to 2013. So this is also one of the reasons why the growth is not that much stronger.

The other question was about --

**Q - Mario Pierry** {BIO 15055554 <GO>}

-- about the expansion outside of Latin America.

**A - Roberto Egydio Setubal** {BIO 1525746 <GO>}

Yeah. Well we are very happy if we could do this deal in an accretive separation and which is always very (inaudible) be able to achieve a controlling position in an accretive transaction. I think this was really something very, very special. We will have a strong -- a lot of work to do in the next two years in Chile and Colombia in order to integrate those banks (inaudible) the figures of CorpBanca and

plus our bank, so we are talking about three banks' integration. We -- in Chile, we will be integrating a bank to our bank, which is bigger than ours. So we have a lot of work to do in the coming two or three years in those markets. So we do not plan to have anything new on those two markets at least.

Then, we are still looking to be in all the countries in Latin America, which we are not at this point in time, which is Peru and Mexico. And we -- maybe if we have the opportunities to acquire something in those markets, we will do it. We do not have anything in due in terms of developing economies at this point in time. We believe that we should pursue our strategy of becoming a regional bank. So we want -- we would like to have presence in more markets and having a stronger position (inaudible) think about going to other markets.

**Q - Mario Pierry** {BIO 1505554 <GO>}

Very clear. Roberto, just a quick question, a follow-up then. When we look at your franchise today and your earnings contribution coming from Brazil, what would you expect this makes to look like five years down the road or even 10 years down the road. What is the ideal mix you would like to get in terms of revenue contribution out of Brazil and outside of Brazil?

**A - Roberto Egydio Setubal** {BIO 1525746 <GO>}

Well, I think that we would like to have a more diversified balance sheet than the one we have today. When we look 10 years from now, maybe 5 and 10 years from now, we believe that we will have a more diversified balance sheet because in Brazil, the growth that we have, the potential growth that we have is more limited, giving our market share that we have today and also the potential growth in the Brazilian economy.

When we look into Latin America, we see more potential growth in the local economy that we are in. And there's also some marketing potential that we might at least through acquisitions and transactions. So we see more growth out of Brazil than in Brazil for the next few years at least. These -- and we believe that we will always be mainly a Brazilian bank, probably it will be very difficult to achieve more than 30% of revenues coming from other Latin American countries.

**Q - Mario Pierry** {BIO 1505554 <GO>}

Of course. Thank you very much.

**Operator**

Our next question comes from (inaudible) with J.P.Morgan.

**Q - Unidentified Participant**

Hi, good morning -- or actually good afternoon to you guys. Two questions as well. First, on loan growth and risk appetite. And Roberto, you talked a little bit in your answer to the previous question about your expectations for the credit growth, but obviously, one of the major drags has been -- or principal drag really on your credit growth has been the auto book and the SME portfolio, both of which have been contracting. Can you give us an outlook of how are seeing these two businesses going forward? What you think? What needs to happen for risk appetite in these segments to start to come back and when do you envision the balances for these segments to start growth again?

My second question is very specific. It's on your NPL formation. I think on page 12 of your presentation, you gave an evolution of the NPL formation. Just wanted to understand, just clarify first that seems to not include the additional NPLs that were that came on board with credit card. And if you could just give us the specific number, I know you gave us the NPL ratio, excluding credit card, but if you can share the specific number of what credit card added to your 90-day past due ratio that would be helpful.

**A - Roberto Egydio Setubal** {BIO 1525746 <GO>}

Okay. We -- in terms of our NPL formation, I don't have a number here to give you and those numbers do not include credit card. We might work out some numbers for you, if you wish, please (inaudible) here with me and he will be able to provide you those numbers. In terms of impacting NPLs, we showed you a 3.7 number in page 10 of our presentation. Credit card represents 10 BPs on that. So if we have not had credit card incorporated in those numbers, we would be only at 3.6 ratio at this point in time.

In terms of credit growth of the auto book, we do expect some decline in the book, especially in the first quarter -- first semester with some recovery in the second semester, probably going to a level, it's still below December 2013. So still some decline although we will be in a growth mood in the second semester. In terms of SMEs, we have already started to grow the SME portfolio, although slowly. But we'll see this portfolio improving along the -- we believe that we have made some changes not only in terms of risk appetite, but more recently in our -- the way we organize the business and some of that, we moved some of the business into different segments, so we are still adjusting that. But we believe that this year we have also market growth in that segment.

**Q - Unidentified Participant**

Okay. The 30 basis point increase in the early stage delinquencies in commercials, were those concentrated more in corporate portfolio or were they more specific small companies and middle market companies?

**A - Roberto Egydio Setubal** {BIO 1525746 <GO>}

The early delinquency NPLs for companies, it's more on the corporation side, we've assumings in that portfolio. It does not represent the trend in my view. We believe that we still believe its stable in the level that we have seen since June, okay, it is normal oscillation, normal variation that we had in this number, it's not a trend. And we still believe that the credit quality of the consumers' view improved on the road show. Company is more or less stable and some improvement in the consumer side.

**Q - Unidentified Participant**

All Right. Thank you very much.

**Operator**

Our next question comes from (inaudible).

**Q - Unidentified Participant**

Hi. Thank you for hosting the call. I just wanted to kind of get more color on your expectations for your insurance business growth rates, just reflecting beyond the growth in 2013 and how you see the outlook for 2014?

**A - Roberto Egydio Setubal** {BIO 1525746 <GO>}

That's an interesting question. You should be I mean; our strategy is to concentrate more in the bancassurance business. So -- and we are moving out of some of the other business -- other segments that we have business. We are considering to sell our property business and this view affects our topline because those businesses have strong revenues. But you should be looking at the combined ratio. And we should be focusing more in -- and we are focusing more in our combined ratio, as you can see on page 16, which means looking at the technical results, which means, earned premiums plus claims and sales and expenses. This is the line that we should be following and we will be showing you this because since we are moving out of some of the businesses, we believe that does not have to include (inaudible) strategy because that is either too risky and need more focus and we are able to approve it, but also we are not going to areas of



insurance that has higher level of claims. We want to be in lower level more bancassurance and grow that line of technical results.

### **Q - Unidentified Participant**

Can you elaborate on what combined ratio you'd like to target and then maybe you can give us some color on what growth rates you expect, earned premiums to grow at?

### **A - Roberto Egydio Setubal** {BIO 1525746 <GO>}

I do not have a number to give you.

### **Q - Unidentified Participant**

To get that combined ratio performance?

### **A - Roberto Egydio Setubal** {BIO 1525746 <GO>}

Okay. I do not have a number to give you because we are changing the mix and this change is a -- if special prices in selling the property business, this will affect and I don't have the number to give you. But we can think of in terms of technical results, we can always think in terms of growing in that line, okay. I don't have a number of the ratio -- component ratio to give you here at this point in terms of focusing.

### **Q - Unidentified Participant**

And what would be the priority segments that you'll be focusing on?

### **A - Roberto Egydio Setubal** {BIO 1525746 <GO>}

Pension and life is the primary focus of our insurance strategy.

### **Q - Unidentified Participant**

If you give -- are you able to elaborate on how much of your customer base is already penetrated for those products?

### **A - Roberto Egydio Setubal** {BIO 1525746 <GO>}

We have a market share on those products, but we believe they are below our potential. We can grow our market share, we have opportunity there. We especially penetrate in terms of gross sales in our credit card portfolio that is much below what the potential for insurance and focus [ph] to credit card will be the potential for our size -- for the size of our credit card portfolio.

### **Q - Unidentified Participant**

Thank you.

### **Operator**

Our next question comes from Philip Finch with UBS. Mr. Philip, your line is open.

### **Q - Philip Finch** {BIO 3252809 <GO>}

Hello, can you hear me?

### **A - Roberto Egydio Setubal** {BIO 1525746 <GO>}

Yes.

**Q - Philip Finch** {BIO 3252809 <GO>}

Hi. Good afternoon, everyone, and thank you for taking my questions. They are -- two questions really, I'd just like to ask. One is in terms of asset quality, where you report a really impressive and we have improvement coming through. So I think on slide 10 you showed a 90-day NPL ratio at 3.7%, which looks like the lowest level for at least five years. I realize you're continuing to change your loan mix toward safe types of borrowers. So my question is really whether there's much more scope for your NPL ratio to go much lower given the current level which is already very low.

The second question is again going back to credit card, where you've given guidance for 5% rise in costs in 2014. I guess, the question here is, can you give us -- share any color in terms of the impact credit card should have in terms of revenue growth in 2014 as well? Thank you.

**A - Roberto Egydio Setubal** {BIO 1525746 <GO>}

Okay. We still see some additional decline in our NPL over 90 days. I believe that most of the reduction that we have already seen giving our current risk appetite position. In the next year, we'll have a bigger declines, we see additional declines for this year, but not at the same level as last year, but some additional declines, especially coming from the consumer side. In terms of second question, I would like you to repeat it because I really did not understand it correctly what you have in mind.

**Q - Philip Finch** {BIO 3252809 <GO>}

The second question is really trying to understand the contribution credit card to give to your revenue going forward. You talked about the additional cost of 5% that including card this year, but I guess I'm just trying to gauge what sort of revenue upside this could add to your overall group revenues?

**A - Roberto Egydio Setubal** {BIO 1525746 <GO>}

I don't have a number here to give you, but in our guidance, when we -- credit card included in the numbers that we are giving in terms of guidance, so whatever number you come up out of the mess that you do math that you do -- also remember the guidance that we gave you. It does include credit card average.

**Q - Unidentified Participant**

Okay. Fair enough. Thank you very much.

**Operator**

Our next question comes from Jorge Kuri with Morgan Stanley.

**Q - Jorge Kuri** {BIO 3937764 <GO>}

Hi Roberto, good morning; two questions, if I may; on your guidance on provisions, just wanted to understand the change in expressing the guidance net of recoveries. I am assuming that the amount of provisions you're going to do are not necessarily dependent on where the recoveries are this year. So would you mind just helping us with understanding the provision in the same way, as you did last year just loan loss provision expense and whatever recoveries, I guess will (1.07) (inaudible) happened. So what is your expectation for this?

And the second question, I guess, is a bit more long-term and it has to do with your loan growth outlook. I think you've made perfectly clear that it is difficult to grow loans beyond the level that we've seen over the last year or two without the support of a stronger macroeconomic growth. And I guess what needs to happen in Brazil in order for the economy to grow much faster due half of the visibility that is in the near future if you obviously don't see this happening in 2014? Is there an expectation that we're closer to that if 2015, hopefully a better year or not or arrive in this sort

of like funk for the next foreseeable future? And I just wanted to understand how do you see this playing out? Thank you.

### **A - Roberto Egydio Setubal** {BIO 1525746 <GO>}

Okay. Let me start with this growth potential that we see over the years. I believe that probably we can grow between 10% and 16% in the current level of growth in the Brazilian economy of 2% to 3%, something around that number (inaudible). Probably, if we have a higher growth, close to three, it'll be more close to 15%, lower growth; more to two will be something more closer to 10%. So this is -- for the next two, three years, this is the kind of growth that I would expect between 10% to 15%, would be quite reasonable.

In terms of loan loss provisions net of the recoveries, I'll tell you that we do not expect major change in recoveries. We believe that it would be around the same number that we had this year more or less stable, maybe 5%, 10% above or below, we are not more than that. So this is the number, but it's also important to have in mind that we have credit card included in that number. Credit card brings additional losses giving that big business we acquired. So -- but on same basis, we are talking about gross provisions below this year, the year of 2013. So, on the same business, on comparable basis, the loan loss provisions for 2014 should be below the level of 2013.

### **Q - Unidentified Participant**

All right. And if I may, just a couple of clarifications. And is it fair to assume the same level of improvement as you saw in 2013 versus '12 or a slower level of improvements? How much is better? I guess that's the question. And then on the first answer -- thank you for your answer, but I was thinking more about your view on the macro, what needs -- I appreciate the ranges, I mean, the economy grows 3, you'll be closer to 15, if the economy grows 2, you'll be closer to 10. The economy has been closer to 2 for the last three years, I guess. And so I wanted to understand your view on the macro, what do you think needs to happen in order for Brazil to move out of this sort of a sluggish environment that we've seen and how do you think that needs to play out? Thank you.

### **A - Roberto Egydio Setubal** {BIO 1525746 <GO>}

In terms of macroeconomic conditions, I see that Brazil -- the good thing is -- the best thing that growth probably will be between two and three, but the good thing that probably it won't be below two. I think that Brazil has the -- that is a low level for vulnerability [ph] in terms of external account. So I think 2% is the floor for Brazilian economy growth. I think there are some additional potential growth that you should take into consideration, which are the growth that would come from the reduction of the presence of deposit banks that has been announced by the government.

This will open up space for the private sector to improve and some recovery also on the margins of loans -- because of that reduction in prices. So those are the things that you should also take into consideration given the market conditions and the level of growth of Brazil. And also about your question on how much lower, we do not think that will be too much lower and given the numbers that we gave you, you can do the math and you find out that we're a little bit below, not that much, but below the level of expenses of provisions that we had in 2013. Thank you.

### **Q - Unidentified Participant**

Thanks. Great. Thanks, Roberto.

### **Operator**

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

**A - Roberto Egydio Setubal** {BIO 1525746 <GO>}

Okay. Thank you all of you that has been with us during this call. It's my pleasure to have you and the opportunity to present you the results that we had and I look forward to see you again on the other opportunity. Thank you very much for your presence.

## Operator

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

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