

## Y 2015 Earnings Call

### Company Participants

- Alfredo Egydio Setubal, Investor Relations Officer and Chief Executive Officer
- Guilherme Setubal Souza e Silva, Investor Relations Manager
- Henri Penchas, Chief Financial Officer
- Marcello Kopel, Investor Relations Officer
- Marcos Antonio De Marchi, Investor Relations Officer and Chief Executive Officer

### Presentation

#### Operator

Good morning, ladies and gentlemen, welcome to Itausa's Conference Call to discuss 2015 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)

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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 we have Mr. Alfredo Egydio Setubal CEO and Investor Relations Officer at Itausa; Mr. Henri Penchas Board member at Itausa; Mr. Marcos Antonio De Marchi CEO and Investor Relations Officer at Elekeiroz. Mr. Guilherme Setubal Souza e Silva, Investor Relations Manager at Duratex and Mr. Marcello Kopel Investor Relations Officer at Itau Unibanco Holding.

It's now my pleasure to turn the call over to Mr. Alfredo. Sir, you may now begin.

#### **Alfredo Egydio Setubal** {BIO 1528623 <GO>}

Thank you. Good morning for those who are in the US and good afternoon for those who are in Europe. We are starting our annual conference call of Itausa. We look over Itausa itself Elekeiroz, Duratex and Itau Unibanco.

I would pass the word to Henri Penchas, our CFO, there we will talk about the numbers of Itausa.

## Henri Penchas {BIO 1525748 <GO>}

Thank you, Alfredo. I'll talk about the numbers of Itausa and give some information about Itaútec, how is going the process of shutting down Itaútec. After me Mr. De Marchi will explain Elekeiroz and after that we'll have Duratex, after that we will have Itau Unibanco.

Slide number 4, you can see the ownership structure of our conglomerate and as you can see more or less in the middle of the slide, we increased, Itausa increased its participation in Itau Unibanco in 0.74%, 0.64% in 2015 due to the buyback of shares then by Itau Unibanco.

Slide number 5, we have the composition of the assets and liabilities of Itausa. 95% are our own assets and just 5% is the debt of Itausa. From the 5% that represents BRL2.2 billion, 1.4 million are represented by dividends payable to the shareholders and the net debt reaching a very, very strong position with a very good debt index and a very good liquidity and with a positive net debt index.

Slide number 6, the dividends and interest on capital. We can see that the dividend growth from 2014 to 2015 to the shareholders is of 27% and this year 2015 we are not making any capital increase in 2016. So that's why the dividend, the net dividend has a so big increase.

In that right side of the slide, we can see that we are paying exactly the dividends received directly -- indirectly from Itau Unibanco with the compounded annual growth rate of 13.8% of growth.

Slide number 17 we have the total assets of Itausa since the evolution of the total assets since 2011 with the compounded annual growth of 10.8% in the period and from the total of BRL47 billion, we have 43 billion in investment in subsidiaries and the investment in the bank represents 94.4% of the total and the industrial area represents only 4.9%.

Slide 8, the evolution of the stockholders equity and net income and the numbers per share where we can see reason of -- the very reason of those compound annual growth rate in all the numbers.

Slide 9, return on average equity, recurring and non-recurring, with an increase of -- with the total return of 21.2% in 2015.

Slide number 10 where we have the distribution of the profit by sector and we see that of the total equity the income 99.8% is represented by the financial area and 0.2% by the industrial area with the main contribution of Duratex. And the total net income of Itausa with an evolution of 7.90 billion in 2014, 28.8 billion in 2015.

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The performance of Itausa preferred shares, the trading volume with an increase of 29.5% of compounded annual growth and daily average volume increased from BRL132 to BRL168 million per day. The weight of the shares of Itausa and Itau Unibanco represent 13.4% of the total volume of IBOVESPA.

At Slide number 12 we can see the discount of the Itausa in comparison with the value of the shares that's compound Itausa that are comprised by Itausa of 23.7%, as of December 30, 2015. Last Monday, the discounts was 22.2%.

Slide 13, we have the evolution of the shares, the percentage of evolution of the shares and the appreciation in real of Itausa with considering the reinvestment of dividends the IBOVESPA, the CDI and the dollar. We can see that in 10 years, the growth of Itausa, all in the CDI was higher in five years the share of Itausa decreased much less than the national index of the stock market and last, the gross loss here, CDI in dollars. And in 12 months, the share was not so good valuation of the shares, it compares with all of their orders in index phase.

Slide 14, all the recognitions and indexes that Itausa is included. We are included for the 12th consecutive year in the Dow Jones Sustainability World Index and we have the highest score in the financial sector in anti-crime policy, financial stability, financial inclusion, social reporting and talent attraction and retention. And we are also in the for the ninth consecutive year selected as component of the ISE that's bringing this of our stock market, BM&FBOVESPA. We integrated the Carbon Efficient Index and we also are following the guidelines of the new version of G4 of the Global Reporting Initiative.

Slide 16, just an evolution of what's happening with Itautec. We accomplished all the sale of all the equipment we had and we continue to honor all the warranties and contracts related to the equipment was sold in prior years. On February 25, 2015, the Board of Directors of Itautec approve its intention to exercise the put option of 30% held in Oki Brazil. In December, we received 107 million from the government federal court order that we call here in Brazil, precatorios. So we can see the right side of this slide, the good position of cash and cash equivalents in comparison with the debt of the company.

I would pass the word now to Mr. De Marchi to tell us what's happening with Elekeiroz. Please, De Marchi.

**Marcos Antonio De Marchi** {BIO 17570710 <GO>}

Yeah. Thank you, Henri. Good morning to all of you. I am going to talk about Elekeiroz in 2015.

I will start on Page 18 where we can see that the shipments in Brazil for chemical products, the demand for chemical products dropped 6.8% following the Brazilian industrial decrease of 6.3% in the domestic industry. We can see that on the chart on the left side that overall in 2015, we have this 8% for Elekeiroz drop in volumes, but quite difference in the two quarters drops of the year. I mean the first half being at 172,000 tonnes and the second one with a significant recovery of 39% we achieved 239,000 tonnes.

And also to say that the first half was impacted by the scheduled maintenance shutdowns we have had in four factories and also the capacity increase in the sulfuric acid plants and the upgrade and interconnection of the industrial gases unit in the year.

On Page 19, we can see that the net revenue has dropped 4% against 2014 and here again two different halves of the year, the second half being 20% recover in comparison to the first one. I have also to point out that the gross profit in 2015 is 34% higher than the previous year and also the second semester has been the double of the first one.

On Page 20, continuing the financial performance, 2015 we have had three non-recurring items, The sale of plot or ground that is not related with our operations. The tax credits recognitions resulting by lawsuits whose judgment was in our favor and also civil contingencies reversal that we've done in the previous year. In 2014 by the other hand, we have been affected negative of 18.6 million. Well, the net income of the company is a loss of 11 million in 2015 coming from a loss of 32 million in 2014. And here again the second semester has shown profit of 1.4 million against 12.4 losses in the first half.

On the Page 21, we can see four charts showing the effect of the Brazilian recession in our -- of the Brazilian economy recession in Elekeiroz in the shipments, 2014 and 2015. Also in the net revenue, but with our action plans, we have in the net income and EBITDA a positive result in 2015 against 2014.

In the Page 22, investments and outlook, we reached 83 million in this year of investments, being [ph] highlights the conclusion of the gas plant of Elekeiroz where we have had then an upgrade and also the interconnection with our oxo-alcohols plant in Camacari. The capacity expansion of the sulfuric acid as well as the launch of two important product, one being the plasticizer high performance, non-phthalate and the second one the butyric acid that till now is only imported in Brazil.

Well, the projects in these investments will be fully reflected in 2016, but its reflections has already started in 2015 second half, being especially the increasing of the shipments due to the capacity expansion of sulfuric acid and the benefit of more competitiveness in our oxo-alcohols and plasticizers coming through the investment in the gas plant of Camacari.

Thank you very much and now the floor is with Guilherme Setubal who will speak about Duratex.

**Guilherme Setubal Souza e Silva** {BIO 20114864 <GO>}

Good morning everybody. Let's start Duratex presentation on Slide number 24 and here it shows [ph] the highlights of the year 2015.

The first one is regarding the Wood division. In the Wood division we increased exports in more than 50% in 2015 when compared to 2014. It's important to mention here that this is part of our risk strategy to increase the revenues that is coming from out of Brazil through Tablemac and export.

Highlight number two, regarding Deca division, Deca division increased margins in 2015 from 17 to 17.7 in this tough scenario.

Highlight number three is regarding the capacity utilization. We announced in the mid of December a temporary shutdown of the part of the activities in Itapetininga panel plant. It's important to say here that Itapetininga represented at around 23% of our total capacity on the Wood division. And then the last one is regarding the dividend, the payment of JCP of 50% adjusted net profit.

So please turn to Page number 25 and here we will discuss the financial highlights consolidate of Duratex in 2015. The net revenues of Duratex in 2015 was BRL3.963 billion is quite stable when compared to 2014. Regarding EBITDA, the EBITDA in 2015 decreased at around 12% when it compares to 2014 reached BRL837 million. The consolidated margin in Duratex in 2015 was 21.1%.

So in the picture below, we have the recurrent net profit. The net profit in 2015 decreased 38%, reached BRL222 million, basically the reduction is for four reasons. The first one, an increase of volumes; the second one, cost increase comes from basically energy cost; point number three, increase of financial expenses, and point number four is regarding the biological asset, situation of the biological asset.

In 2014, we bought Caxuana forest and this acquisition had a positive fluctuation in our biological asset and we didn't have this subject in 2015. Regarding the recurrent ROE, the recurrent ROE of Duratex in 2015 was 4.8, a reduction from 8% the ROE of 2014 and the average equity was BRL4.670 billion.

So please turn to Page number 26 and here I should discuss the operational highlights of the Wood division. So the bonds of the Wood division in 2015 decreased at around 10% when compared to 2014, therefore in 2015 was 2.5 million cubic meters. So in the picture beside, we have the occupancy rate of the Wood division in 2015. MDF the occupancy rate in 2015 was 61%, on MDP side the occupancy rate was 64% and the hardboard occupancy rate was 81%. So as you can see the occupancy rate average in 2015 was very low. That's why we decided to shut down the Itapetininga plant.

So right now, please turn to Page number 27 and here you have the financial highlights of the Wood division. The net profit in 2015 in the Wood division was BRL2.6 billion, a decrease of 1.7% when compared to 2014. The picture besides we have the recurrent EBITDA, the EBITDA in 2015 decreased at around 18% when compared to 2014 reached BRL595 million. The average EBITDA margins of the Wood division in 2015 was at around 23%.

So right now, please turn to Page number 28 and here the idea is to talk about Deca division. So the Deca's volume in 2015 decreased 2.3 when compared to 2014, but it's important to say here that this volume is including Corona. Without Corona the volume in Deca division decreased at around 7% year-over-year.

In the picture below, we have the occupancy rate of the Deca decision in 2015. Under sanitary wares the occupancy rates average was 61% in 2015 and in metal field the occupancy rate in 2015 was 69%.

Turning to next page, Page number 29 and we will discuss the financial highlights of Deca division. Net revenues of Deca in 2015 increased 1.7%, reached BRL1.365 billion. In the picture below, we can see the EBITDA and EBITDA margin. So EBITDA in 2015 in Deca division increased 6%. The total EBITDA in 2015 was BRL242 million and regarding the EBITDA margins as I said before, the EBITDA margin in 2015 in Deca division was 17.7%.

So right now, please turn to Page number 30 and here we have the CapEx of the company over the last years. In 2015, the total CapEx was BRL556 million, basically 262 was for the maintenance of the industrial business, 116 regarding the Corona acquisition and the rest 117 was our ForEx OpEx for the plantation of our forest in Brazil and in (inaudible).

So please turn to next page, Page number 31 and the idea here is to discuss our corporate debt. The net debt in December 2015 of Duratex was BRL1.9 billion this amount was at around BRL28 million lower than the net debt in September 2015. Year-over-year, the net debt increased BRL186 million basically due to Duchacorona acquisition.

Regarding net debt EBITDA, the net debt EBITDA increased from 1.8 in December 2014 to 2.3 in December 2015 basically for two reasons. The first one as I said before regarding the Duchacorona acquisition and the second one is because our EBITDA reduced in 2015 when compared to 2014.

In the picture below we have our amortization schedule for the next years. In 2016, we have at around BRL500 million in debt that will expire over the year and as you can see in the picture on the left side, we have more than BRL900 million in cash. So we have enough cash to pay all debts of 2016 and follow-up our debt in 2017. But it's important to mention here that the idea is to roll-over the debt over the next years.

So regarding the composition of our debt, 62% of our debt are in domestic currency basically at the NGFs loans loaned and working capital and at around 37% are in foreign currency basically resolution 4121, but it's important to mention here that 100% of our debt are handed to BRL, so we don't have any exposure in US dollar or other currency than BRL in Brazil and pesos colombianos in Colombia.

So finally, turn to the last side of Duratex, slide number 32 and the idea here is to talk about our strategic position. So what were our priorities from 2007 to 2014? Increase of capacity through expansion and acquisition. We can see this very well in the picture of both. As you can see we double our capacity on the Wood division and on the Deca division, integration between Duratex and Satipel, the merger that happened in 2009. For number three, acquisition and integration of six companies. So, as you remember we bought two companies (inaudible), Thermosystem in electric shower, Tablemac in Colombia and other companies.

Number 4, our geographical end-product diversification. So I think what that is our electronic business that we bought that we start in 2012 when we bought Thermosystem. Increase of market share is number 5, number 6 is customer services and finally the corporate governance consultation.

So right now what are our focus in 2016 and we started this installment in 2015. First one, it's very important one is our internal agenda. Basically, we have three projects ongoing. The first one is Zero Based Budget, a project more focusing reducing costs starting July 1, 2015.

The second one is Duratex Management System. This project start in 2014, more focus in variable cost than redo the process. Part number three is regarding the logistic project. The idea is to reduce our logistic costing at around 10%. Our total logistic cost per year is BRL250 million and finally the idea is to improve our working capital. The idea is to reduce our inventories and extended tenure to pay suppliers.

Point number two as I said in the first slide the idea is to increase more exports, right so we increased in 2015, 50% when it compares to 2014 and they have increased more 60% in terms of volume in 2016 when compared to 2015.

Number three, our CapEx will be only for the sustaining of the business. Integration between Thermosystem and Corona, Hydra and Corona, our electronic shower business. So number five, adjustment in our capacity, so we did that in the mid of December 2015 and finally, regarding M&A our strategy are the same. So (inaudible) business related to civil construction sector.

So that's it, thank you very much. I'll pass the word to Mr. Marcello Kopel from Itau Unibanco.

## **Marcello Kopel**

Thank you, Guilherme. Good morning and good afternoon everyone. We are now continuing the presentation from Page 34 onwards. Starting with recurring net income of 5.1 billion in the fourth quarter which brought us to 22.9 billion accumulated results in 2015, representing a 8.6% increase year-over-year and it was leading that into a 22% recurring ROE for the year.

Assets reached nearly BRL1.3 trillion and stockholders equity attribute to owners of the parent company reached BRL112.3 billion at year-end. The loan portfolio, which includes also sureties and endorsements reached BRL548.5 billion, a nominal increase of 4.2% compared to the previous year and our loan loss provision expenses for the year totaled BRL24.5 billion, representing a 30.2% increase year-over-year.

In the context of capital management, we repurchased 115.4 million of preferred shares issued by the company and also during in February of 2016, the Board of the Directors approved the renewal of our repurchase program of up to 10 million of common shares and 50 million of preferred shares issued by the company.

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Turning to Page 35, on our loan portfolio, the loan portfolio illustrates the strategy that the bank has adopted over the last three years, which is basically prioritizing assets with lower credit risk with a safer profile and we can see here that in the comparison year-over-year the portfolio that can be highlighted are payroll loans, which had an increase of 12.1% and the mortgage loans portfolio, which involve 19.5%. When we look at the overall portfolio with endorsement sureties and private securities had an increase of 4.7 which is below inflation and that is a trend that we expect to continue given the low credit demand in the market and the credit policy that we have been following.

Moving to Page 36, we show here the NPL ratios, the overall 90 days NPL ratios and we can see that in relation to the macro environment that we've been dealing with where we see a slow in our economic environment coupled with the increasing unemployment, we see a reflection of that in increasing the individuals portfolio NPL moving from 4.7 in December 2014 to 5.4 and a slight increase in the company's portfolio and the overall index coming from 3.1 to 3.5%.

So when we move to Page 37 we talk in the slide about the allowance for loan loss, the balance of that which has been growing and grew from BRL22.4 billion as of December 2014 to 26.8 billion bringing our coverage rate increasing from 160 to 164 and it's important to mention that the bank will continue to provision and keeping the strength of its balance sheet over the course of the time. We recognize it's a challenging macro environment, and the bank is well positioned and prepared for that

Moving to Page 38, we see here on the left side of this chart the evolution on banking service fees, which grew something around 11.8% and this is fully aligned with our focus on continuing to expand our services and to our clients and making more use of cross-sell. In the top part of this chart, we see the commission and fees result from insurance pension plan and premium bonds. The comparison here, it shows a reduction of around 3% and this is basically the fact that we exited some non-core businesses in 2014. Therefore in 2015, we don't have those revenues, but the main focus here is really to concentrate on bank assurance projects and we've been very successful in this strategy.

Talking about expenses, we continue developing our efficiency programs and this is something that we'll continue to do during 2016. Talking about recognitions, important one is regarding Dow Jones Sustainability Index, where we are the only Latin American bank in this part of the index since its creation of that and also we were recognized in anti-crime policy measures, financial stability, and systemic risk and financial inclusion and social reporting as one of the leading institutions on that and we continue to be part of the local Sustainability Index in Brazil for the 11th consecutive time. So this just reinforces our commitment to have a sustainable business and looking for long-term -- having a long term view on that.

On Page 40 things to highlight; final approvals from our regulators were obtained for the Itau CorpBanca in Chile, which should take place during the course of the first half of 2016, the acquisition of ConectCar, which is a company that is in the means of payments arena and this is fully aligned with us being an important participant on that. And finally, we acquired a company called Recovery, which is focused on credit recovery. They have a best-in-class operation in the market and this is fully aligned with the bank strategy and



any enhancement that we can do in our collections could represent future efficiencies in our operations.

Moving to Page 41, here we demonstrate how we go with stockholders equity column, starting from the Brazilian GAAP values of BRL106.4 billion and how we reached the 112.2 billion equity of consolidate shareholders in IFRS. So this is just how we reconciled one to the other one.

And now moving to Page 42 where we basically show how we track against the guidance we provided early in 2015. All figures here are Brazilian GAAP. So we basically show that we delivered what we signaled to the market already in 2015, okay.

And when we move into Page 43, we provide guidance regarding 2016 everything under Brazilian GAAP, but we basically expect a nominal portfolio expansion or actually contraction starting from ranges from minus 50 bps to 4.5% on a consolidated basis for our operations. Financial margin with clients expanding from 2% to 5% year-over-year.

Loan loss reserves, net of recoveries ranging from 22 billion to 25 billion, commission and fees expanding from 6% to 9% and non-interest expenses growing somewhere between 5% and 7.5%. This is in line with our commitment to grow below inflation and nevertheless this is a challenging environment where we are going to be experiencing during the course of the year.

So from that, I'll turn that back the comments to Mr. Henri Penchas who will take over the call.

**Henri Penchas** {BIO 1525748 <GO>}

Thank you. Marcelo. With the presentation of Itau Unibanco we finished the presentations of the main controlling companies and now we are open to your questions, please.

## Questions And Answers

### Operator

Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) This concludes today's question-and-answer session. Mr. Alfredo, at this time you may proceed with your closing statements.

**A - Alfredo Egydio Setubal** {BIO 1528623 <GO>}

Thank you all for the participation. I think we had a very good audience. We had a record number for the participants of Itausa conference call in English also in Portuguese in earlier and I think we were able to pass all the numbers and the strategies from Itausa and all of their subsidiary. Thank you for your participation and waiting to see you again next year when we prepare the annual conference call of Itausa.

## Operator

That does conclude our Itausa's 2015 results conference call for today. Thank you very much for your participation. You may now disconnect.

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