

# Q3 2020 Earnings Call

## Company Participants

- Candido Botelho Bracher, President and Chief Executive Officer

## Other Participants

- Carlos Gomez
- Enrique Navarro
- Geoffrey Elliott
- Jorge Kuri
- Mario Pieri
- Natalia Corfield
- Thiago Batista
- Tito Labarta

## Presentation

### Operator

Good morning, ladies and gentlemen. Welcome to Itau Unibanco Holdings conference call to discuss 2020 third quarter results. At this time, all participants are in a listen-only mode. Later we will conduct a question-and-answer session (Operator Instructions) As a reminder, this conference is being recorded and broadcasted live on the Investor Relations website at [www.itau.com.br/investor-relations](http://www.itau.com.br/investor-relations). A slide presentation is also available on this site.

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

With us today in this conference call in Sao Paulo are: Mr.Candido Bracher, President and CEO; Mr.Alexsandro Broedel, Group Executive, Finance Director and Renato Lulia Jacob, Group Head of Investor Relations and Market Intelligence. First, Mr.Candido Bracher will comment on 2020 third quarter results.

Afterwards, management will be available for a question-and-answer session. It is now my pleasure to turn the call over to Mr.Candido Bracher.

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

Thank you. Good morning, everyone and thanks for attending to our 2020 third quarter earnings call. I hope you are all well and safe.

On Slide 2 and before we get into our financial performance, I'd like to comment on the macroeconomic scenario we faced this quarter. After a period of strong economic contraction due to the pandemic, we can already see encouraging signs of activity recovery in Brazil. This is reflected both in our GDP expectation for the period as well as in the Itau economic activity index which is already close to the pre-crisis levels. However, this recovery was made possible largely

due to the stimuli provided by the government, which in turn increased public spending and deteriorated Brazil's fiscal situation as you can see in the debt to GDP growth.

In the end, this recovery scenario brought important opportunities for the bank. Over the past quarter, the interest rate in Brazil reached its lowest level in our history, which continue to drive our clients to seek more profitable investment opportunities. In this context activity in the capital market continued to grow due to the increased demand from individual investors, and created the condition for us to advise and structure 28 new ECM transactions this year. This lower interest environment in conjunction with the changes brought by the pandemic on the way the population uses public transportation has led to a healthy demand for car financing products.

We also launched an important new real estate financing options for our clients with a wider range of products aimed at home equity as well as the launch of mortgage with interest rates based on savings deposits. This was only possible due to our funding structures, which enabled us to deploy this project, which currently has the lowest interest rate in the market without increasing our ALM risk, last but not least, we disbursed to our SMEs clients just over BRL16 billion in the period through loan facilities this is sponsored and largely guaranteed by the government.

Slide 4. So in view of this scenario just described, here we show that the bank ended the third quarter of 2020 with a recurring net income of BRL5 billion, which translated into an ROE of 15.7%. This 19.6% net income growth was led by an 18.7% reduction in the cost of credit, an important recovery of our fees revenues. However, these effects were partially offset by the negative impact of the change in credit mix on our net interest income, and seasonally higher non operating expenses. Finally, the loan portfolio grew by 4.4% ending the period with a balance of BRL847 billion which we will discuss in further detail in the next slide.

Moving to Slide 5, we show the evolution of the credit portfolio. I'd like to highlight three things in this page. First is the SMEs loan book growth. The 14% growth in this portfolio was due to our participation in loan facilities sponsored and largely guaranteed by the government aimed at this segment. Our customers used these lines, not only so that they could better navigate the effect of the current prices. But also to replace more expensive credit line. Secondly, we observed an important recovery in the individual loan portfolio driven by credit cards, mortgage and vehicle financing. It is important to highlight that the growth in credit cards occurred in a non-interest bearing portfolio whilst the revolving credit balance still showed an important contraction quarter-on-quarter.

Lastly, personal loans remained relatively stable, but there was an additional relevant change in the mix of products as you can see in the chart on the bottom right corner of the slide. As we mentioned on the previous quarter earnings call, this movement reflects not only a change in our customers behavior and a drop in consumption levels, but also and very importantly our active risk management approach as we geared clients towards more sustainable credit products. It is important to mention that the bulk of this change in mix happened in the previous quarter, therefore you can see that the impact was higher on the average outstanding. Naturally, this portfolio dynamics continue to negatively impact that financial margin as we will soon see on the next slide. What we do believe this is a good trade off, temporarily could give us part of the margin in order to protect the principal.

Slide 6. On slide 6, you'll see that the change in the credit mix as we explained in the previous slide generated two negative impacts. BRL0.4 billion related to the change in the mix on individuals and SMEs portfolio as mentioned previously, and an additional BRL0.4 billion is due to the change in mix between segments, more wholesale less retail. And finally the lower Selic rate had a negative impact of BRL0.2 billion on the remuneration of the working capital. These effects were partially offset by the higher average credit volume and also by the higher number of calendar year -- of calendar days.

Slide 7, which is the reprofiled loans. Before we move into cost of credit, I would like to update you on how the reprofiled loans behaved this quarter. On Slide 7, we show that this portfolio finished September with BRL53.5 billion marginally higher than the second quarter when we had BRL52 billion. And acceleration of the growth of this portfolio is directly linked to the better macroeconomic environment, which eventually led to lower demand for this (inaudible) by the end of the third quarter 75% of the grace periods already expired, out of that, 6% were delinquent between 15 days and 90 days and 0.6% were delinquent for more than 90 days. This performance is better than the originally forecasted when we put this program in place.

Moving to Slide 8. We present the evolution of the expected loss provision model and cost of credit. Before getting into the actual numbers, I'd like to once again explain the way we demonstrate the provisions on this chart. The provisions for overdue operations strictly follow the rules defined by the regulator where a minimum level of provisioning is required when the loans is overdue. The next layer is what we call aggravated ratings. These are related to the amount we have provisioned for overdue or renegotiated credits above the minimum defined by the regulator.

Finally, we have the potential losses which contains the provisions we've made for credits that are not delinquent nor regulated nor renegotiating. Even though we are seeing a good delinquency behavior from the clients that were granted payment of holidays of their loans we believe that we are still sailing in uncharted waters. Whether due to the payment holidays I just mentioned or due to the fact that the recovery of the economy observed in the third quarter was largely supported by emergency government aid, which is expected to be reduced dramatically next year.

Given this facts, we decided to maintain a prudent management of our provisions, therefore in this quarter, we continue to build provisions for potential losses, which increased by approximately 120% over the first 12 months and together with the drop in the NPL balance led to the highest coverage levels we've ever had. The management of our provisions reinforces our commitment to the sustainability of our medium and long-term results.

Lastly, although the cost of credit is still above the normal levels, it continues to show a positive trend, contracting further 18.7% in the quarter, the second time in a row. This reflects all the actions we've undertaken, since the beginning of this crisis and the improvement in the macroeconomic and financial conditions, which feed into our expected losses model.

Now on Slide 9, we show that due to the intensity of the credit in renegotiations, and the proactive offering of more flexible repayment terms over the last two quarters. The NPL 90 days rates of the individuals loan portfolio continue to contract. We believe, this numbers do not properly reflect the full extent of the prices yet. You will note though, as expected that there was an increase of 60 bps in the short term delinquency ratio of individuals portfolio as customers started to repay their loans.

Slide 10 now. Financial margin with the market. We can see that these financial margin continues to perform in line with historical levels. This performance was mainly due to higher gains in the Brazilian.

Slide 11. We saw a 12% increase in service revenues this period, a far contrast to the performance in last quarter as all the fees and services revenues performed better than the previous quarter. The better economic activity led to more volumes and naturally generated positive impact in our credit and debit card fees, both in the issuing activity as well as in the acquiring operation. The higher transaction volumes also benefited the credit operation fees and the collection services. The low interest rate environment coupled with the economy recovery seen in the quarter led to good opportunities for investment banking activities. We finished the quarter with a 59.8% higher advisory and brokerage fees.

Lastly, I'd like to highlight that we ended September with BRL1.9 trillion in assets under custody, our 15.7% growth over the last 12 months. This performance was achieved not only through traditional operations, but as well through the investment open platform, which finished the quarter just shy of BRL290 billion on custody.

Slide 12, ESG. Last quarter, I mentioned that we would continue to highlight, how ESG aspects are integrated into our core business. This quarter we are going to shed more light over some of our initiatives in our asset management and investment banking operations. Itau asset management has a long tradition in integrating ESG metric in its operation. It was a Pioneer in adhering to the principles for responsible investment and since 2010, it has incorporated ESG metrics to evaluate the company's where we invest our clients resources.

Today, more than 95% of our assets under management are covered by our ESG evaluation model. Moreover, we promote the adoption of the best sustainability practices through direct engagement with investees and by exercising our rights to vote at shareholders meeting. Additionally, we have several investment products dedicated to these things. One of such products is Momento ESG or ESG moment in a direct translation, with an active managed fund launched in September this year that selects between 15 and 25 stocks with the greatest potential for long-term results.

Lastly, in this year our investment banking operation, Ita BBA, structured and advised 75% of the ESG issuance of Brazilian companies in international market.

Slide 13 now. Non-interest expenses, here we will discuss the non-interest expenses, which are another important element of our performance. When we compare this quarter with the same period of the previous year, we can observe a decrease of 0.9% in our consolidated expenses with a 4.2% decrease in Brazil. If we adjusted for inflation, expenses in Brazil fell in real terms by an impressive 7.4% in the period, as can be seen in the chart at the bottom of the slide. One of the reasons we became more efficient is due to our consistently investment in technology. As you can see on the left side of the slide, this is an area where we continue to invest heavily, increasing our capacity in development hours by almost 40% this year.

Moving on to Slide 14, we present our clients digitalization trends. As you know, the crisis naturally led and forced many clients to migrate their banking interactions into our digital channels. And in the upper left corner chart, we show that a number of customers that primarily use our digital channels continues to grow. In this scenario, we were pleased to see that the availability of our systems and services reached the highest historical levels, despite that greater demand and stress of our digital infrastructure.

We strongly believe that the experience that our customers had on our digital channels was very positive and this becomes evident when we observe the same or even higher level of utilization for our digital channels in this quarter despite the end of almost all of the quarantine and social distancing measures that were in place throughout the second quarter in the country. Additionally, we noticed that the flow of new accounts opened online, showed a small decrease in this quarter. However, the volume remains preferably double what was observed last year and showcases a positive ongoing trend of new clients becoming more digital in the way they interact with the bank.

Slide 15. We show that our Tier I regulatory capital improved by 30 basis points this quarter, despite a still volatile scenario and ended the period with 12.4% capital ratio.

On Slide 16. As we are already in November, it makes no sense to disclose our guidance for the year 2020. Over the next month, we will support Milton redefining the guidance for 2021 that will be given on our fourth quarter 2020 earnings conference call. Nevertheless, the perspectives described herein should be the basis of this guidance mainly keeping appropriate levels of capital and liquidity, expanding the loan portfolio and additional reduction in the average rate of financial

margin with clients. Compensated by a growth in service, and insurance revenues. We expect a progressive reduction in the cost of credit, and we'll keep an emphasis in efficiency gains.

Finally Slide 17, we will comment on the recent material facts about our stake in XP. As you well know, the original acquisition plan had a series of call and put options whereby we could eventually end up controlling the company. However, this design was not approved by the Brazilian Central Bank and we ended up with a minority non-controlling stake, as a result this became a financial investment rather than a strategical asset for the firm.

Therefore, after a careful and thorough analysis, we concluded that it would be in the best interest of our shareholders to spin-off such investment from Itau and transfer it to a new company owned by them. By doing this, we would be able to achieve two equally important objectives unlock value as this investment is not fully priced in our valuation and give our shareholders the ability to decide what they want to do with this asset.

As a result, we are studying the possibility to spin-off 41.05% of XP's capital held by the bank into a new company or NewCo, a company that would be listed in the stock exchange. After the spin-off, Itau Unibanco shareholders would receive an equity interest in NewCo, whose only asset would be the shares represented by XPs capital. This study also looks into the possibility of selling the remainder of the shares issued by XP held by Itau Unibanco, corresponding to 5% of XP's share capital in order to monetize part of this business lines in our balance sheet and boost our capital ratios.

With this, I conclude the presentation and we may start the 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 today will come from Jorge Kuri with Morgan Stanley.

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

Hi. Good morning, everyone. Congrats on the numbers and on the XP announcement. Two questions if I may please. The first one is, what is included in your loss models for NPL in 2021? All of the provisions that you've made are assuming that NPLs will go from the current, so I believe to what exactly next year? What do you think that peak of NPLs is going to be? That I think will allow us to understand what level of cushion do you have in your balance sheet?

And my second question is a bit more longer term. Hopefully, there is a new reality of interest rates in Brazil and we see rates stay at low single digits for long. Where do you think I don't know we can go back up to in that scenario? And again, I'm not asking you to provide a specific guidance, but since overall how much of historical ROE is in the roughly 20% were driven by the level of rate? And can that be offset with expenses or efficiency more profitable balance sheet? And can it get there again? Thank you.

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

Good morning, Jorge. Thank you for the questions. Concerning our ops for credit quality in 2021, I cannot tell you what level of NPL we expect for 2021, we don't disclose this information. What I can tell you is that our models for 2021, they are based on very conservative economic projections for economic growth and the whole macroeconomic scenario. That's the way we usually do it. And this

is why our provisions have consistently been enough for the level of delinquency we have faced over the past many years.

As we've shown in the page -- the Slide 8 and then our potential loss provisions have increased by a 120% in the last 12 months. So we are very comfortable with this level of provisioning for next year, even given the conservative scenario which we embed in our projections.

As to ROEs, this is a very good question. We have always thought of ROEs as compared to the cost of capital, and this is why we even show our ROEs and cost of capital in the same chart. And of course, I mean there is a sort of conundrum here, I mean that interest rates went down so much not only in Brazil, but in the whole world and cost of capital did not. I mean cost of capital remained in the low teens, even with interest rates dropping to 2% in Brazil. So with this element, I mean, it's not evident that we will keep the same -- we'll be able to keep the same difference between ROE and cost of capital as before. Having said that, I think, I mean, we've seen in this quarter 15.7% ROE, I think it's a reasonable expectation that we may see higher figures next year for ROEs.

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

All right. Thanks, Candido.

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

Thank you, Jorge.

**Operator**

Our next question comes from Thiago Batista with Banco UBS.

**Q - Thiago Batista** {BIO 15398695 <GO>}

Yeah. Hi guys. Thanks for the opportunity to make questions. I have one question and by the way it is the follow-up of the Portuguese call about Newco. Will the NewCo be listed in Novo Mercado? Or it is expected to have voting and no-voting shares? This is first one. The second, if you have the timeline of this deal, I know that you mentioned that this will not happen in 2020. But is it safe to say that, if the idea is to have this spin-off in the first half next year second half. So if you can give a little bit of more clarity on the timeline of this deal? Thanks a lot for the answers.

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

Thank you, Thiago. As to your first question, I apologize, but we have not decided yet. I mean if it's going to be Novo Mercado or not, we'll decide soon. As to when to expect the translation we have said here, I mean, not before the year end, but I would add to this, not too far away from year-end, either. So I think it should be around that day.

**Q - Thiago Batista** {BIO 15398695 <GO>}

Okay. But it's possible to assume that this new company will have voting and non-voting shares, because you mentioned that the new company will follow the controlling structure of Itau Unibanco. So in case -- this means that the new company will have voting and non-voting shares. Is this is correct?

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

This -- we are still deciding upon this Thiago, I mean, it involves, I mean, Itau Unibanco, it involves the shareholder agreement with XP and so on. So we still decide on the format this shares will have.

**Q - Thiago Batista** {BIO 15398695 <GO>}

Okay, great, Thank you, Candido. Thanks for the help.

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

Thank you.

## Operator

Our next question comes from Geoffrey Elliott with Autonomous.

**Q - Geoffrey Elliott** {BIO 15944940 <GO>}

Hello, good morning. Thank you for taking the question. May be shifting tack a little bit away from the spin-off, the PIX's payment system is going live very soon, I think it's starting to ramp up about now. Could you talk about your performance so far with that in terms of registering keys? There was some data out a couple of weeks ago that kind of showed Itau lagging behind some of the new entrants there. And then your expectations for what that's going to mean for you and for the system going forward.

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

Thank you for the question Geoffrey. You're right, I mean, as a matter of fact, we didn't perform well in the first days of registration of clients. We've had some technological problems in the first three days which have hampered our ability to onboard clients. Having said that, we think that PIXs is definitely a long-term factor. It will help us serve our clients much better with the basis of clients to serve this way. Also combined with other products of the bank, like it and so on, we expect this number to increase a lot and we are paying a lot of attention on the quality of the service, which we are going to give for these clients.

For companies for instance, I mean we are increasing very much the quantity of companies that we on board for PIXs, and we are prepared to give them already an excellent service quality. So here I mean we consider PIX a very important element in our competitiveness going forward, and we do not think that this initial problems we have will hamper our ability to significantly grow our platform there and improve the quality of services to all our clients.

**Q - Geoffrey Elliott** {BIO 15944940 <GO>}

Got it. And where do you think you're going to get to in terms of those key registrations? Do you think you can catch up with the digital banks that kind of got out there ahead of you? Or do you think that they're just going to have bigger numbers all the way through now?

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

Listen Geoffrey, don't think so much in these terms. Whereas, I mean, simply to have the clients registered (inaudible) does not renew the client use necessarily nor does it bring you any income. It has to come jointly with quality service for the clients. And this is what we are preparing. We are not -- we don't have specific targets in terms of number of clients that we have in terms of quality of clients that we are going to turn into our pattern. Having said that, we have 55 million clients in the bank, between current account and credit card holders. And we expect to serve a large percentage of this base and also to add to this base, other individuals and companies which are not our clients today.

**Q - Geoffrey Elliott** {BIO 15944940 <GO>}

Thank you.

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

Thank you, Geoffrey.

FINAL

Bloomberg Transcript

**Operator**

Our next question comes from Carlos Gomez with HSBC.

**Q - Carlos Gomez** {BIO 15024854 <GO>}

Hello. Good morning and again, congratulations on the XP transaction and a very successful term, Candido. Thank you very much for your service at Itau. My question is regarding transactions. First, I wanted to confirm in that the value at which you keep XP in your financial statements, you mentioned here that the book value is now BRL9.6 billion, is that how you have it valued in your statement? Is that the cost rate that we should consider for any possible capital gain? Second, I would like to know if the date and the pricing of the additional stake that you will purchase is unchanged? And finally, would you be paying a 45% tax rate on a possible gain? Or does it happen through a non-banking structure and you obtain a lower tax rate? Thank you very much.

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

Thank you, Carlos. I got your first and your last question, I didn't get the answer to your second one. So I will ask the first and third, and ask you to please repeat the second. First, yes, I confirm, I mean the book value of the XP participation is BRL9.6 billion. And as to -- I mean when and if we sell our 5% participation, it's held through a non financial company. So the tax rate is 34%. And the second question I didn't get.

**Q - Carlos Gomez** {BIO 15024854 <GO>}

Yes. I wanted to confirm the terms of the additional acquisition, if we understand correctly from your filings, it is 11.53% of outstanding shares of XP, it takes place on 2022, and it's 19 times earnings. Is that correct?

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

That's exactly. So it's -- we have the right to buy 11.5% of XP capital. Now -- it used to be 12.5% in the beginning. But since the capital increase, now it's 11.5% between 2022 and it's at a multiple of 19 times earnings.

**Q - Carlos Gomez** {BIO 15024854 <GO>}

And earnings of 2021? '22?

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

'21.

**Q - Carlos Gomez** {BIO 15024854 <GO>}

'21.

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

Yes.

**Q - Carlos Gomez** {BIO 15024854 <GO>}

Okay. Thank you very much.

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

Thank you, Carlos.

**Operator**



## Q - Mario Pieri

Hello everybody. Good morning. Sorry. I just joined the call late, I had the wrong time here. So I apologize if I'm repeating any other questions. But first of all, you were leading the bank for the past like 3.5 years almost 4 years. If you can leave like a message of what do you think your legacy is going to be at Itaú? What do you think were the main accomplishments that you were able to make? And what do you think are the main challenges that the bank is facing?

Also second question is related more to your results, right. I think there were a lot of questions in Portuguese call talking about the XP transaction and almost no questions about the performance of the bank in the quarter. We did see provisions coming down, we did see your coverage ratio going up, it seems like your renegotiated a portfolio is performing much better than we anticipated. Can you talk about what explains this better performance of your loan portfolio? And how do you see this behaving next year? Because it seems to us like there's a lot of room for provisions to start to normalize. If you can give us any idea where you think the provisions could be next year if the economy continues to perform the way it is? Thank you.

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

Hi. Well, despite the fact that you have not been present in the call, I don't think your questions repeat any other question which has already been made. So thank you for your questions. So your first question about my legacy to the bank after this 3.5 almost 4 years as CEO. I honestly I don't like to talk in terms of legacy. I think it's not for the one who has made things to talk about his legacy and the others it should recognize if there is a legacy or not.

What I can talk about is, where did I focus my energy during this time and my energy was focused, first and foremost, in enhancing the importance of customer experience for the bank, or customer satisfaction. So this was the first, second and third priority and it was stressed in every communication in every measure we've taken and in having implemented in the net promoter score methodology throughout the bank not using the measure, but I mean with callbacks to the clients with liturgy having been created in the whole institution with group discussing client satisfaction and so on. This was a main focus. In order to reach this, there was digital transformation was elected as the main tool. And so a lot of effort was placed on this. And I think we are off to a good start there, and we already have two years in this effort, and we are quite satisfied with the evolution we are seeing.

And another important element of performance and of customer satisfaction is efficiency, because efficiency allows you to better price your products. And so, we place a lot of attention on gaining efficiency, reducing costs and this is also a place where I think we are performing well.

And then there's 2020, and in 2020 a lot changed with the crisis. And then here the important thing and where I placed most of my energy and efforts was to show a constructive phase of a bank in the light of a major crisis. And so here I mean, we had this BRL1 billion donation and restructuring of Todos pela Sade, which was an effort to design to support the country in this difficult period. We had attention towards all of our co-workers beginning from realizing that they were fragile at the onset of the crisis in order to reassure them so that they could render better services to our clients.

And finally, there is this way with climate change and with the Amazon where are we here -- I mean with, jointly with our competitors Bradesco and Santander are launching. I mean it gives this effort which is a long-term effort in order to support environment. So, here it was about showing how good corporate seats in a bank can be (Technical Difficulty) that we've had some success in showing these and in enhancing the banks image.

That's for the first question you made. About the results for next year and your question was more on the provisions, right. Could you repeat your second question, Mario, please?

### Q - Mario Pieri

Yeah. No, not exactly second question is more related to how do you see your coverage ratio? Why do you think your portfolio is performing better than you expected at the beginning of the year and how much do you think provisions can come down in 2021?

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

Well, it really depends a lot on how the economy performs. On the economy, we are expecting a 2% to 3% GDP growth next year, but there are other factors around in the relation net debt to GDP, it behaves how is the fiscal performance of the government, and then how will this impact the exchange rate how will this impact inflation, and how your inflation units turn impact interest rates and then you will close the cycle because interest rates have an influence on that to GDP relations and so on.

So there are dangers ahead and the government will have to be efficient in dealing with these dangers. I don't know how much they affect the growth in 2021 itself, but it really affects the long-term perspectives. As I have mentioned in one previous question, I mean, our provisions are made based on conservative assumptions as to the economic performance of the country. So if we have now more good evolution of the economy, I trust that our provisions will prove to be excessive. But because this is not a scenario which we have taken into account in our models when making the provisions, but this is something and we'll only know later in 2021. Because as I have said in the presentation, to a certain extent we feel that we are still on uncharted waters next year as we do not know how the economy will react to the extraction of the stimuli, of the fiscal stimuli that was very expensive this year.

### Q - Mario Pieri

Okay, Candido. Thank you very much. And I really enjoyed working with you last few years and wish you much success in your future roles. Thank you very much.

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

Thank you very much, Mario.

### Operator

Our next question comes from Tito Labarta with Goldman Sachs.

### Q - Tito Labarta {BIO 20837559 <GO>}

Hi, good morning, Candido. Thank you for the call. Couple questions. Our first and your margin. -- We seen quite a bit of pressure over the last couple of quarters, as you mentioned partly due to the segment mix and the retail mix, and lower rates. But given sort of the government support loan, particularly in SMEs, how much of this margin do you think you can get back pretty quickly as those loans sort of go away? And how much of this pressure on margins do you think is more structural, and will continue? So I guess overall, how should we think about your margin evolution from here?

And then my second question on XP, just thinking a little bit more in terms of the rationale. I mean, I think economically, it makes a lot of sense as a stake and given that you're benefiting from what they're doing? But from a strategic perspective, given that you're benefiting from what XP is doing, but at the same time they're competing against you. From a long-term perspective and I think with the recent announcement, also it could make it easier for you to ultimately sell your stake, but do you think strategically in the long term it will make sense to continue to have this

stake in XP? Should you be more competitive against them? Just to think a little bit about the competitive dynamics going on particularly given your economic stake in them? Thank you.

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

Thank you very much for the questions. First on our margins. I think you're right. The reduction in the margins have a precise calculation, but I would make a wild guess here, but 3/4 of it at least is due to the pandemic and how we reacted to it. And we've reacted to it by offering the sponsored lines and also by offering better turn in our own lines and offering all this flexibilization of lines as we as we call as you call it here.

A part of it, will come back sooner as the economy evolves, if the economy improves. A part of it will take longer, because this government lines -- they are long-term lines, most of them. So they will not mature next year alone. So, which is a negative for the margin, but is a positive for credit quality going forward. So I think the we still may see, because of the effect of the average amount of money, I mean, we still may see some decrease in our margin for one or two quarters, but then I expect it to stabilize and begin, especially in absolute terms, as we also expect the portfolio to grow.

Now your question to XP is a very interesting question. I may say that -- the whole XP transaction was made while I was CEO. And so we acquired the stake in May '17 and I have never gone softly on our own area investment area and investments and efforts and so on, because we've had a participation in XP. So it was very clear from the moment that the Central bank said that you cannot have any kind of equals (Technical Difficulty) that was a financial participation, a good financial participation. I mean happy with the management effective to have a stake in the growth of an activity with which we could not compete exactly in the same terms as they did it, but it did not make us shy of competing freely.

Having said that it's of course, our task of competing dispute is made easier and more comfortable by not having a direct participation in the company, so although, we have not shown of doing this. We will feel more comfortable freely from the less risk of having any conflict of competing interest whatsoever.

**Q - Tito Labarta** {BIO 20837559 <GO>}

Great. Thank you, Candido, that's helpful. So just to follow up on that last comment, so and I don't want to read too much into it. But what does that mean ultimately it would make sense to divest the entire stake? Or, I mean, I understand you may not be able to comment on all of that. But just to get a sense, I mean, you said you think it will be easier to compete without any direct participation and I guess this vehicle makes it easier to, sort of, divest a bit. But it is that sort of the trend you're going to sell 5% and maybe continue to dilute over time? Is that the way to think about it?

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

Well. Let me see for a minute here. Of what falls under the responsibility of Itau Unibanco, we are divesting everything. I mean, we are spinning off 41.05%, which for Itau Unibanco, it only bank is equivalent to a divestment because the bank is no longer an investor in their company. And we will sell in the appropriate moment the other 5%, so we are divesting everything of the company. Of course, we still have -- (Multiple Speakers) we still have the commitment to buy 11.5% in 2022, which we will of course, honor. And what we will do with that, this would be the new administration's decision to take.

**Q - Tito Labarta** {BIO 20837559 <GO>}

Perfect. Thank you, Candido and best of luck in your future.

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

Thank you very much.

## Operator

Our next question comes from Natalia Corfield with JP Morgan.

### Q - Natalia Corfield {BIO 6421991 <GO>}

Thank you very much for taking my question. With regards to through your capitalization and they spin off, do you have, in the spin-off and the potential sale of the 5% stake? Do you have an idea of how much those events would impact your core equity?

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

The spin-off impacts only indirectly our capitalization level, I don't have the number here, not entirely of the spin-off, but it's marginal. And it impacts in the sense that today, a part of this investment we have to deduct from our Tier 1 capital, and this will no longer be necessary. The sale of the 5% stake of XP, depending, of course on the prices is it's made -- we will improve our Tier 1 equity in 40 to 50 bps.

### Q - Natalia Corfield {BIO 6421991 <GO>}

Okay. That's clear. Thank you so much.

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

Thank you, Natalia.

## Operator

Our next question comes from Enrique Navarro with Santander.

### Q - Enrique Navarro {BIO 17685145 <GO>}

Hi, Candido, good morning, thank you for taking my question. The COVID-19 has anticipated or accelerated several digital initiatives. So maybe now we are expecting a lower number of branches and personnel for the next year than we were expecting before. So I would like you to comment on the potential improvement in efficiency specifically on number of branches and personnel for the next years. I know it's not going to be in your hands, but I mean the trends already started. So anything you could comment on this would even be very welcome. Thank you.

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

Thank you, Enrique. So I think that the solution of the COVID crisis, if we can call it so, and with the vaccine and let's assume that things come back to normal in the second half of next year. So I don't think it has a great impact in our efficiency efforts. I think what we'll have an importance about the crisis having is the way we will have now our people working in the bank and in the home office will be much more widely used in the bank. And this may have an impact in closing the branches which we have not fully measured yet. I mean we have to see the behavior, the client behavior after once we are back in normal life, but most of our efficiency gains are projected to be gained upon the better use of technology, and we are projecting these and I think that the NewCo is confident that we will keep on improving the efficiency level of the of the bank, and we'll keep on having a significant efficiency gains in the future.

### Q - Enrique Navarro {BIO 17685145 <GO>}

Okay. Thank you. And thank you all for, all those good years and always tweaking as the analyst (Inaudible) in the very end of the straightforward and nicely. Thank you.

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

Thank you very much, Enrique. Appreciate.

## Operator

Our next question is a follow-up from Geoffrey Elliott with Autonomous.

**Q - Geoffrey Elliott** {BIO 15944940 <GO>}

Hi, again, thanks very much for taking the additional question. The spin-off is that kind of pending approval from any regulators, kind of pending any sort of approval from XP? Do you need any agreement from an outside party to get that done? Or is it entirely in your hands?

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

Hi , Geoffrey, no. It's only pending approval from our board of directors.

**Q - Geoffrey Elliott** {BIO 15944940 <GO>}

Got it. Thanks very much.

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

Thank you. Thank you.

## Operator

And our next question is a follow-up from Carlos Gomez with HSBC.

**Q - Carlos Gomez** {BIO 15024854 <GO>}

Yes. And I again, thank you for taking my follow-up question as well. When you look back over the last four years, Itau has been a great dividend payer, has administered capital very well. However, in terms of how the company has been able to grow its profit and when we compare you to your main competitor, it's clear that your rate of growth has been lower to the point that here. We are in this quarter in which you have had exactly the same recurring profit both Banks. How do you see this going forward? Have the investments that you have made going to end up resulting in higher growth in the future? or do you expect more to accumulate and distribute capital? How do you see the capacity for Itau to grow in line with the other large banks in the market? Thank you.

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

Thank you, Carlos, for the question. As you know, I mean, we have always been very focused on risk adjusted return on capital. Our investments have always had this in mind. I have said before in a question that I've seen that the challenges, the main challenges ahead for the new administration are digital transformation and growth. Growth is an objective, which will be much enhanced in the new administration.

## Operator

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

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

Wonderful. Thank you all for the participation, for the interest. They're very good questions. I mean, it has been an honor and a pleasure to talk with you during all this time. Thank you very much.

## 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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