## **Integrated Report 2018**

Itaú Unibanco Holding S.A.



# Highlights 2018 GRI 102-7 In millions of *reais* – R\$ (unless otherwise indicated)

### \$ Financial capital

	2018	2017	2016	2018 vs. 2017	2017 vs. 2016
Net income attributable to owners of the parent company <sup>(1)</sup>	24,907	23,193	21,627	7.4%	7.2%
Annualized recurring return on average stockholders' equity(1) – %	20.4	19.6	20.1	0.8 p.p.	-0.5 p.p.
Annualized recurring return on average assets <sup>(1)</sup> – %	1.7	1.7	1.8	0.0 p.p.	-0.1 p.p.
Dividends and interest on own capital, net <sup>(1)</sup>	22,437	17,558	10,000	27.8%	75.6%
Free own funds raised and managed <sup>(2)</sup>	2.567,860	2,266,976	2,056,946	13.3%	10.2%
Total assets <sup>(1)</sup>	1,552,797	1,436,239	1,351,314	8.1%	6.3%
Stockholders' equity attributed to the owners of the parent company <sup>(1)</sup>	136,782	131,378	120,095	4.1%	9.4%
Credit portfolio <sup>(1)</sup>	536,091	497,719	494,851	7.7%	0.6%
Nonperforming Loans Ratio (90 days overdue) <sup>(1)</sup>	3.5%	3.9%	4.3%	-0.4 p.p.	-0.4 p.p.
Itaú Unibanco market capitalization(2)	341,968	275,523	219,348	24.1%	25.6%
Solvency ratio - Prudential Conglomerate (BIS Ratio) <sup>(1)</sup>	18.0%	18.8%	19.1%	-0.8 p.p.	-0.3 p.p.

### Social and relationship capital

Total retail customers <sup>(2)</sup> – millions	49.9	47.3	47.0	5.4%	0.6%
Total direct shareholders – thousands	148.9	121.1	112.6	22.9%	7.6%
Total suppliers (3) – thousands	13.8	13.0	7.1	6.2%	82.8%
Taxes, fees and government contribution taxes(2)	23,333	20,495	17,890	13.8%	14.6%



### **A** Human capital

	2018	2017	2016	2018 vs. 2017	2017 vs. 2016
Total headcount <sup>(2)</sup>	100,335	99,332	94,779	1.0%	4.8%
Employee satisfaction ratio (3) – %	87.0	85.0	84.0	2 p.p.	1 p.p.
Investment in personnel <sup>(1)</sup>	24,846	23,276	22,360	6.7%	4.1%

### **Intellectual capital**

Itaú Unibanco brand value(4)	29,788	28,196	26,611	5.6%	6.0%
Average Evaluation of the Itaú PF app on Play Store and Apple Store <sup>(2)</sup> – 0–5	4.5	4.3	3.6	2.4%	13.5%

### Manufactured capital

Branches, digital branches and banking service outlets <sup>(2)</sup> – units	4,940	4,981	5,103	-0.8%	-2.4%
$Automated\ teller\ machines^{(2)}-units$	48,476	46,965	46,175	3.2%	1.7%
Card devices <sup>(2)</sup> – thousands	1,228	1,157	1,471	6.1%	-21.3%

### **Matural capital**

Water consumption <sup>(3)</sup> – m <sup>3</sup>	1,449,038	1,390,142	1,410,592	4.2%	-1.4%
Energy consumption <sup>(3)</sup> – MWh	606,946	607,888	630,245	-0.3%	-3.5%
Greenhouse gas emissions <sup>(3)</sup> – tCO <sub>2</sub> e	228,682	244,334	164,791	-6.4%	48.3%

Source: (1) Complete Financial Statements in IFRS – 2018; (2) Management Discussion and Analysis and Complete Financial Statements – 2018; and (3) Sustainability Report 2018; and (4) Interbrand.



**Executive Summary** 

### About this report

GRI 102-14 | GRI 102-45

The way we think and our approach to creating long-term value are aligned with the principles of this integrated report that enable us to describe clearly how we generate and share value with our shareholders, clients, employees, suppliers and society in a sustainable manner.

### Highlights of the report

Our integrated report describes whom we are and how we strive to create value in the short, medium and long terms. We draw attention to how our corporate governance drives our business, defines our strategies and manages the main business-related risks and opportunities.

The Integrated Report 2018 incorporates material changes in comparison with previous editions. Its structure follows the messages from our key executives and consolidates in a single document, using clear language, what we report in our main publications.

The report is structured in four sections:

### 

The co-chairmen of the Board of Directors give a brief overview of Itaú Unibanco and commemorate the 10th anniversary of the merger. Thereafter, they set the context in which our capitals are inserted, their transformations and the main trends related to the business.

### Message from the Executive Committee...28

In this section, the Executive Committee presents our business model and how it creates value, as measured by the distribution of added value to society, in addition to addressing the importance of our governance and our strategic fronts, which, connected to the relevant topics and the Sustainable Development Objectives, drive our business in the search to change leagues.

### Management Commentary......75

Our CFO and CRO makes an analysis of our operations.

For us, creating value is about achieving financial results that exceed the cost of capital, that remunerate our shareholders and other stakeholders through responsible and long-lasting ethical relations based on trust and transparency and focused on the sustainability of the business.

### **Principal directives**

The purpose of this report is to clarify how we create value for our shareholders and other stakeholders. To that end, we describe our strategic fronts and what we are doing to achieve them, in addition to prioritizing the topics considered most relevant for creating value in the short, medium and long terms. This integrated report has been prepared in line with the key directives on managing and reporting economic, social, environmental and governance aspects. To make it easier to read we have flagged the main directives adopted in this report with the browser icons shown below.

### Strategic fronts

Having given collective thought to our greatest strategic challenges, in 2017, we defined our strategic fronts in order to add consistency and quality to our results in the years to come. Our entire efforts on these fronts bear the hallmark of good corporate governance and sustainability practices.



### :D | Client centricity

To design products and develop a "service culture" where the focus is always on customer satisfaction.



### **Digital transformation**

To accelerate our digital transformation process by continuously increasing the productivity of our technology area and disseminating a digital mentality across the entire bank, to obtain greater efficiency while improving user experience and customer satisfaction.



### **People management**

To enhance our incentive models and our assessment tools to consider the new dynamics of cooperative working, making them more effective for evenhanded evaluation of individual achievements in multifunctional teams.



### Risk management

So that we can fully comply with the guidelines on risk appetite. Managing risks is the essence of our business and the responsibility of every employee.



### Internationalization

Advancing in the internationalization process does not necessarily mean expanding our business into new countries, but rather achieving in the countries where we operate the same quality of management and level of results we enjoy in Brazil.



### Sustainable profitability

To continually enhance the efficiency of our operations, having the ability to identify opportunities for reducing costs, managing investments to become more agile, in addition to efficiently managing capital allocation using an appropriate cost of capital.

### Integrated Reporting (IR)

Integrated reporting, conceived by the International Integrated Reporting Council (IIRC), aims to improve the quality of the information available, fostering a more cohesive approach, in addition to enhancing responsibility for the management of organizations. In this report, we are summarizing the basic principles and the elements of content shown in the <IR> International Integrated Reporting Framework (Framework) and we are adopting the fundamental concepts of value generation, business model and capitals.

### \$

### **Financial capital**

Financial resources available or allocated to our own or third-party business, obtained as financial products or services.



### Social and relationship capital

Our main stakeholders and how we relate to them, reflecting our ability to share value and to improve individual and collective well-being.



### **Human capital**

Our employees and their skills, experiences, motivations to innovate, develop and improve processes, products and services through meritocracy, leadership and collaboration.



### **Intellectual capital**

Consisting of the reputation achieved by our brand, our intellectual property and our ability to develop new technologies, products and services that create competitive advantages and ensure the perennial nature of the business.

### Manufactured capital

Equipment and physical facilities used in our business, owned by, leased by or under the control of Itaú, such as branches, automated teller machines, applications and technology systems.

### \$

### **Natural capital**

Reflects renewable and non-renewable natural resources consumed or sequestered for the prosperity of the business. We are talking primarily about air, water, land, mineral ores, forests and biodiversity.

## Sustainable Development Goals (SDG)

The SDGs are a social, environmental and economic agenda of the UNO and world leaders until 2030.

1	Eradication of poverty	ŤŧŤŧŤ
2	Zero hunger	(((
3	Health and well-being	<b>-</b> ₩•
4	Quality education	
5	Gender equality	<b>₫</b>
6	Clean water and sanitation	ğ
7	Clean and renewable energy	- <b>Ø</b> -
8	Decent work and economic growth	
9	Industry, innovation and infrastructure	
10	Reduction of inequalities	
11	Sustainable cities and communities	
12	Responsible consumption and production	00
13	Countering climate change	
14	Life underwater	
15	Life on land	<u>•~</u>
16	Peace, justice and effective institutions	<b>Y</b>
17	Partnerships for targets	<b>*</b>



This agenda was compiled based on the Millennium Objectives and seeks to increase the value of corporate sustainability by sharing purposes and good practices, generating opportunities aligned with the new economy and stronger global cooperation to reduce the adverse impacts on society.

In this report, we are presenting the potential SDOs for our business, highlighted in grey, in other words, those that may be significantly affected, positively or negatively, by our activities and commercial operations.

### Global Reporting Initiative (GRI)

The GRI is an independent organization that assists businesses, governments and organizations to understand and communicate their impacts on issues like climate change, human rights, governance, corruption and social wellbeing. This report presents a basic level of conformity with the standards of the GRI.

### Materiality and material topics

We consider relevant topics to be those with the capacity to affect our value creation in the short, medium and long terms from the point of view of managing key stakeholders, in line with the directives of the Framework, GRI Standards and SDOs. In 2018, we have revised our materiality matrix to include the new challenges we are facing. The topics identified were prioritized, discussed and internally validated, with external assurance from independent auditors, based on the directives of the AA1000 standard. This review resulted in 10 new material topics:













**Environmental management** 





### Stakeholders

This report identified the main stakeholders with whom we relate and who were consulted during our materiality review.

Shareholders

**Employees** 

:D Customers

**Suppliers** 

Society

Government and regulatory bodies

The purpose of this report is to provide, in a concise manner, the maximum relevant information connecting not only financial aspects, but also those of a social, environmental and governance nature, so that our stakeholders can make the best possible decisions in a transparent and timely manner.

### Information from the report

GRI 102-1 | GRI 102-50

The information we are presenting in this report refers to the year 2018 (January 1 to December 31). For comparative purposes, we are also reporting the years 2017 and 2016, as well as the data and information from the date of the merger between Itaú and Unibanco (2008).

Our Integrated Report 2018 also incorporates information sourced externally, such as social and economic indicators, market data and projections, as well as sectorial studies over which we have no control. This information will be flagged when presented.

We are reporting here the consolidated information of Itaú Unibanco Holding S.A., our subsidiaries, affiliates or companies over which we have significant influence, operating in Brazil and overseas. The financial information is shown in *reais* (R\$) – our functional currency. Foreign currency transactions are converted using the exchange rates prevailing on the dates of those transactions.



The financial information is in accordance with the International Financial Reporting Standards – IFRS issued by the International Accounting Standards Board (IASB) and with the accounting practices applicable to financial institutions authorized to operate in Brazil by the Central Bank (Bacen), for registration with the Brazilian Securities Commission (CVM) and for ascertaining dividend payments and tax liabilities.

In 2018, we began adopting accounting standard "IFRS 9 – Financial Instruments", replacing "IAS 39 – Financial Instruments", altering our methodology for classifying, measuring and reducing the impairment of financial assets.

### Learn more by clicking on the icons highlighted in this report

### **Access our IR website**





### Our head office is located at

Alfredo Egydio de Souza Aranha Square, 100 - 04344-902, São Paulo, SP - Brazil



### Our phone number

+ 55 (11) 2794-3547



### Registration

CNPJ 60.872.504/0001-23 NIRE 35500010230





Individuals: relacoes.investidores@itau-unibanco.com.br Institutions: iir@itau-unibanco.com.br

### **Forward-looking Information**

This report contains plans and projections about the financial condition and results of the operations of Itaú Unibanco which, although based on assumptions of the management and on information available in the market to date. involve inaccuracies and risks that are difficult to predict and which, therefore, may lead to results or consequences other than those expected herein. This information is no guarantee of future performance. Use of these expectations must take into account the risks and uncertainties involving any activities that lie beyond our control, including, but not limited to, our ability to realize the extent of the projected synergies and their schedules, political and economic changes, volatility in interest and currency rates, technological changes, inflation, financial disintermediation, competitor pressure on products, prices, and changes in tax legislation, among others.

### Responsibilities

Management is responsible for preparing this report and for the internal controls it has deemed necessary to allow this information to be prepared free of material distortion, irrespective of whether caused by fraud or error. This report was reviewed by PriceWaterhouseCoopers Auditores Independents (PwC), an independent audit firm as stated in the opinion.

I wish you all good reading!





**Alexsandro Broedel** 

**Executive Finance Director** and Head of Investor Relations

Learn more about **our executives' experience** 





Message from the Co-Chairmen of the Board of Directors

### About Itaú Unibanco

# Our founders had a clear idea of what a bank should be and the values that should govern what we do

Dear reader,

We are proud to celebrate the 10<sup>th</sup> anniversary of the merger between Itaú and Unibanco in 2018. The union of the two successful track records of two ground-breaking banks in the use of technology, as well as leaders of the sector in Brazil. The coming together of the two organizations has enabled us to become the largest Brazilian private bank in total assets, as well as leader in Latin America in market value, while our brand was considered the most valuable among Brazilian brands by Interbrand in 2018, valued at R\$29.8 billion.

Our story begins in 1924, when the banking section of Casa Moreira Salles, founded by João Moreira Salles, commenced operations as a banking correspondent for the leading banks in the state of Minas Gerais, subsequently becoming União dos Bancos Brasileiros, widely known as Unibanco. In the case of Itaú, the other pillar of our story, it was founded two decades later, in 1943, when Banco Central de Crédito was founded by Alfredo Egydio de Souza Aranha in the city of São Paulo.

In 1933, Unibanco's operations were taken over by Walter Moreira Salles, who then took charge of our development. Olavo Setubal, in turn, became Chief Executive Officer of Itaú in 1959, with the support of Eduardo Villela, the founder's son-in-law.

In 2008, we decided to merge the two organizations and create one of the world's largest banks, Itaú Unibanco. The partnership has meant the union of two complementary mentalities that share a common history marked by mergers, acquisitions and takeovers, ethics and transparency in business, respect for the law, recognition of human capital, customer satisfaction and social development.

The merger was considered the greatest deal in the country's history, especially if we consider the difficult times we were experiencing on account of a serious international financial crisis.

### **Our Vision**

To be the leading bank in sustainable performance and customer satisfaction

### **Our Purpose**

To foster people's power of transformation

### Our Way GRI 102-16

A strong culture hallmarked by ethics, collaboration, meritocracy and total and unbridled respect for people:

- 1. It's only good for us if it's good for the client
- 2. We're passionate about performance
- 3. People mean everything to us
- **4.** The best argument is the one that matters
- **5.** Simple, always
- 6. We think and act like owners
- 7. Ethics are non-negotiable





### **Business** context

From the merger until today, a series of international events continued to influence our business and people's lives, such as fluctuations in the US dollar, the credit squeeze, high inflation, fluctuating interest rates and the economic recession which would only show signs of recovery in 2010.

During this period, the USA experienced the greatest financial crisis since the 1930s, the outcome of inefficient credit policies and risk assessments that culminated in the explosion of an unprecedented real estate crisis.

The European Union, in turn, was working on a bail-out plan for the Greek economy, recognizing a much higher deficit than previously disclosed. This saw the financial markets cast an even darker cloud of suspicion over other countries.

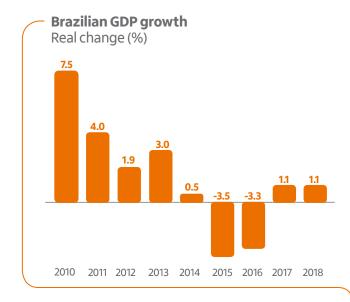
In Brazil, the economy was recovering from the financial crisis of 2008, producing signs of growth and a strengthening economy. Given the social and economic scenario we were facing, in 2012, we developed a business model based on the fundamental concept of value creation and the cost of capital allocated to each activity, in order to obtain fair returns.

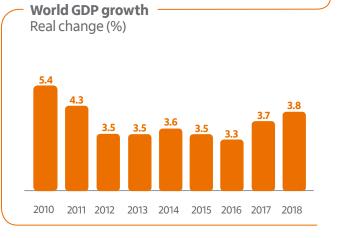
This vision with respect to results guides our operations towards business that effectively creates value for stockholders, establishing a minimum return required for our operations.

However, in 2015 we were taken by surprise by a new financial crisis triggered by high government expenditures, leading to sharp drop in GDP in 2015 and 2016 and an increase in the number of unemployed.

Beginning in 2017, with low, but positive, growth, the Brazilian economy showed signs of a reaction, indicating yet again that it would put the crisis behind it. The year 2018 was marked by changes in the Brazilian political scenario and the continuing recovery of the country's economy, even if somewhat discretely. After three years of recession, GDP grew in 2017 and 2018 by 1.1% in both years, in a scenario of low inflation and lower interest rates. However, we still have major challenges this year and in years to come, especially the need for important structural reforms in Brazil, such as the social security reform which is unlikely to happen before the second half of the year, and the tax reform.

Please refer to the section of 20-F Form entitled Context, items on Macroeconomic Context, Global Context and Brazilian Context for further details about economic data and indicators.





Source: Itaú Unibanco Holding and the Brazilian Institute of Geography and Statistics (IBGE).

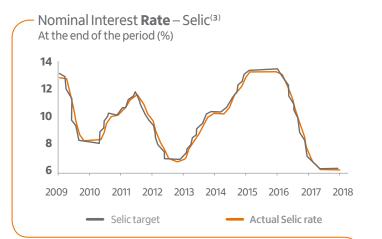
#### Material themes

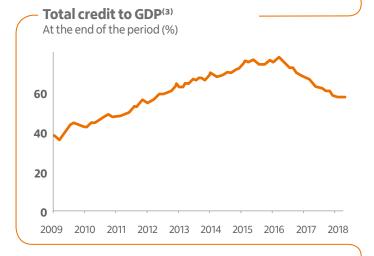


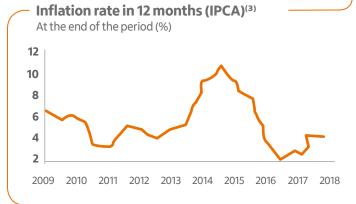
\$ Value creation

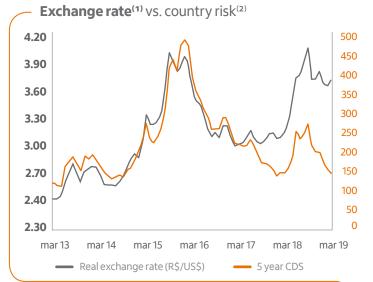


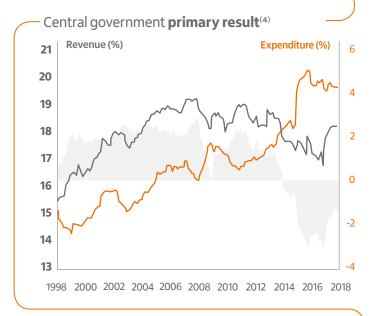
Source: (1) Bloomberg (cumulative rates in the period); positive numbers mean depreciation of the real. (2) Bloomberg (end of period). Sovereign Credit Swap (CDS) is a country risk measure (baseline), (3) Itaú Unibanco Holding and Bacen. (4) National Treasure and Bacen. (5) Ministry of Labor.













2012

### \$ | financial capital

### For us to adapt to this scenario,

we decided in 2012 to revisit our business model and restructure it into a three-pronged approach: the definition of Risk Appetite, the Focus on Insurance and Services and the Control of Costs and Efficiency. The first step was to change the mix of our credit portfolio, which, in a scenario of economic crisis, increased the participation of products with lower risk, such as real estate loans, guaranteed by real assets, and payroll loans, whose installments are deducted from payrolls and are concentrated on stable income customers such as retirees and federal government employees.

We also give priority to our services and insurance, pension plan and premium bonds, which require less capital allocation and results and value creation of which are less volatile in relation to economic cycles. In addition, our business strategy for this operation is to focus on mass-market products, traditionally sold through our network of branches and digital channels. Accordingly, operations such as life group, large risks and extended warranty insurance lines were either sold or discontinued over last years. Even in this context, we have increased the operating revenues from insurance, pension plan and premium bonds and services.

Finally, we are constantly striving to improve efficiency and obtain productivity gains in our operations, as we see that there are always opportunities to improve control of our costs.



To illustrate our strategy of seeking to reduce our exposure to risk, the portfolio of Payroll Loans and Mortgages to Individuals jumped from R\$31.6 billion in 2012, to R\$88.7 billion in 2018, while vehicle financing fell from R\$51.2 billion in 2012, to R\$15.9 billion in 2018. Our risk-adjusted efficiency ratio in 2012 was 73.1%, and 61.2% in 2018. As a result, we have tripled the value creation since 2012, jumping from R\$3.1 billion, to R\$9.2 billion.

The result was a new bank that, year after year, exceeds its targets for growth and value creation, even in a scenario of increased competition and consolidation in the financial services sector in Brazil. By 2018, the country had 135 conglomerates – commercial and multiple banks, development banks and public banks.

Besides the traditional competition, the presence of new entrants is on the rise, driven by innovative technologies which has increased healthy competition within the domestic financial system. We see this trend as an opportunity to improve our relationship with our customers.

In the Products and Services section of this report, we highlight our market share and main competitors in each type of product or service we offer our customers.

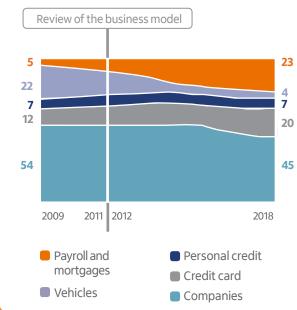
Learn more about the competitiveness of the banking sector in Brazil

### **Credit portfolios**

Our loan portfolio at the end of 2009 was **R\$288.9 billion**, rising to **R\$412.2 billion** in 2011 and ended 2018 with **R\$636.9 billion**.

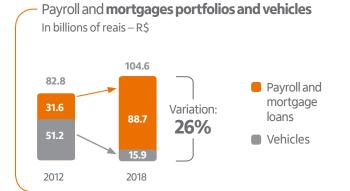
### **Product mix (%)**

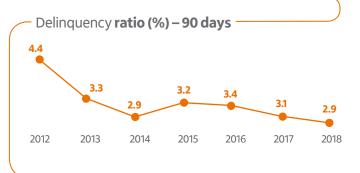
Loan portfolio in Brazil

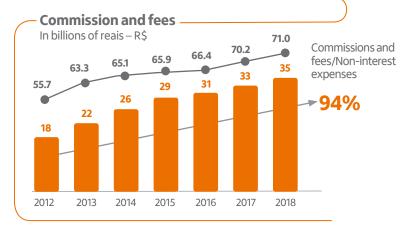


# Efficiency **ratio** (%) 73.1 68.2 63.1 63.7 70.1 64.2 61.2 45.7 49.2 47.3 44.0 45.3 46.4 47.6 2012 2013 2014 2015 2016 2017 2018 Risk adjusted efficiency ratio Efficiency ratio

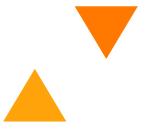
Source: Management Discussion and Analysis and Complete Financial Statements in BRGAAP  $-\,2018.$ 











### Relationship channels

### **Customer service**

4004-4828 - capitals and metropolitan areas **0800-728-0728** – other locations +55 (11) 4004-4828 - for overseas customers

**Ombudsman's department** 0800-570-0011

### social and relationship capital

Turning to the banking sector, we are witnessing important changes, especially where the competition is concerned. Besides the traditional competition, the presence of new entrants is on the rise. We are striving to be leaders in satisfaction through ethical and long-lasting relationships.

The last ten years have seen major social transformations. Globalization and widespread access to the internet have changed people's behavior and the profile of consumers, who have become more demanding and concerned about propositions that have a positive impact on society.

The internet has revolutionized human behavior. which is reflected in consumer purchasing habits. They are no longer afraid to purchase online, they have begun to do more research and to interact with companies, considering the evaluations and opinions of other customers.

To continue to grow and become the leaders in client satisfaction, we must always be alert to the transformations affecting society and our customers' new experiences. It is essential to understand what our customers are looking for and how each of us can assist them in that search.

In 2017, we implemented a strategic agenda with six strategic fronts and, in 2018, we launched

the the objective of changing leagues, so that we would begin to be compared with the world's best companies in client satisfaction, rather than with just our main competitors in the banking sector. This is a challenging target, one that will require us to constantly evolve initiatives and adjustments to our processes and in our relationship with our stakeholders.

In this respect, during 2018 we made a concentrated effort regarding our agenda with our customers, and in the sections on "Client centricity" and "Digital transformation" we describe the key initiatives that will lead us to change leagues.

Social networks are increasingly important in our relationship with society. We have achieved the second-highest digital community of fans among banks. We monitor our profiles 24 hours a day, clearing up doubts, receiving feedbacks and attending our clients.

In a world where relations are increasingly digital, the development of products and services must factor in the customer's profile, including traditional customers. We have made it possible for our customers to do most of their transactions via internet, but they also have the physical branches at their disposal.

Itaú on social medias Date of consultation: March 29, 2019





## Largest dividend distribution of a listed company in the country's history for the second consecutive year

### **Dividends and interest** on

shareholders' equity, net of Income tax<sup>(1)</sup> In billions of reais – R\$

2018: 22.4	2015: 7.3	<b>2012: 4.5</b>
2017: 17.6	2014: 6.6	2011: 4.4
2016: 10.0	2013- 51	2010: 3.9
2010 10.0	2013 3.1	2009: 3.5

shareholders

# A fundamental value of good corporate governance is transparency with investors.

We hear and understand our investors' demands and we inform them about our business strategies and results in a clear and transparent manner, constantly striving to develop initiatives that add value for our various stakeholders.

We strive to ensure unfettered communication with shareholders. In 2018, we held 16 Apimec meetings across Brazil, attracting 2,437 shareholders. Our Apimec SP meeting (public meeting) was awarded the seal of Quality as the Best Apimec SP meeting of 2018. We also took part in 54 conferences and seven road shows in Brazil and abroad.

We held four quarterly conference calls the day after each quarterly earnings release. The calls are conducted in English and afterwards in Portuguese and may be accessed by telephone or on the internet.

Currently, our capital stock is composed of 9.8 billion shares represented by common shares (ITUB3) and non-voting shares (ITUB4). The non-voting shares are also traded on the New York Stock Exchange (NYSE), as American Depositary Receipts (ADR) – ITUB.

Therefore, among other actions, we have assumed and incorporated into our internal processes a few

national and international voluntary commitments and pacts aimed at integrating social, environmental and governance aspects into our business.

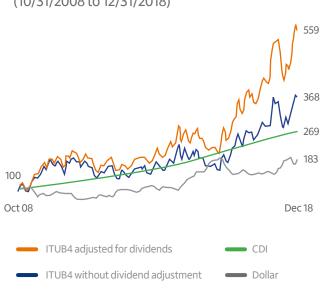
The main ones are the Principles for Responsible Investment (PRI), the Charter for Human Rights – Ethos, the Equator Principles (EP), the Global Impact, the Carbon Disclosure Project (CDP), Women's Empowerment Principles (WEP), the *Pacto Nacional para Erradicação do Trabalho Escravo* (National Pact for Eradicating Slave Labor), among others.

Our efforts to increase the knowledge on how to assess environmental and social criteria have been recognized as models in Brazil and abroad, as shown by the recurring presence of the institution in the major sustainability indexes abroad, such as the Dow Jones Sustainability Index, and recently, in Euronext Vigeo – Emerging 70 Sustainability Index, and in Brazil, for example, in the Corporate Sustainability Index, as well as the numerous prizes which we have been awarded.



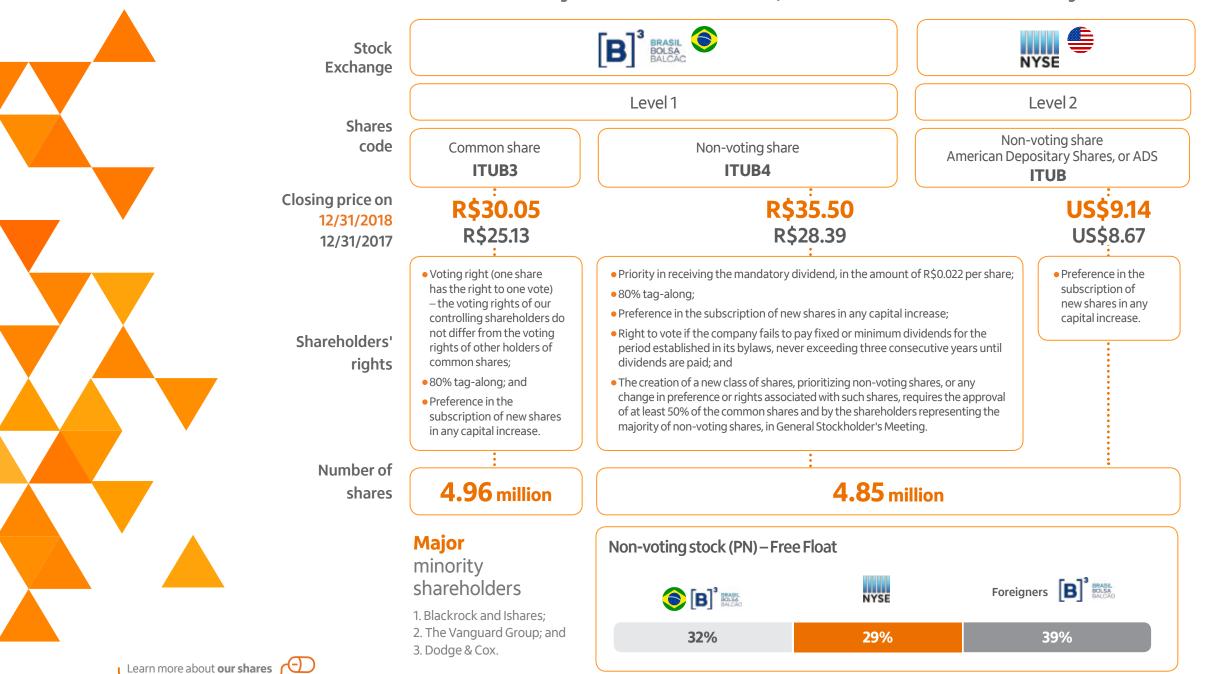






Source: (1) Management Discussion and Analysis and Complete Financial Statements in BRGAAP – 2018; (2) Economatica and Citadel; and (3) Bloomberg.

Our shares are traded on stock exchanges in Brazil and the United States, in the form of common shares and non-voting shares.



Source: Management Discussion and Analysis and Complete Financial Statements in BRGAAP – 2018.





# The financial sector plays a key role for society, serving persons, families, companies, governments and civic institutions.

As a financial institution, we recognize our role as agents of transformation and promoters of local development. Through innovation, we work to encourage projects, institutions and individuals on the path to building a better world. We are capable of generating jobs, developing business and fostering entrepreneurship.

With this in mind, we applied a study of externalities to identify our economic contribution to society. Based on the Utopies Local FootPrint® methodology, we simulate the economic flows involved in our business and in some credit operations and measured the economic contribution of our activities, expressed in terms of jobs held and the added value generated for Brazil's GDP.

The *Utopies Local FootPrint* methodology considers direct and indirect impacts and catalyzers. Direct impacts refer to net interest margins, taxes, procurement, suppliers and creating and maintaining jobs. The indirect impacts are related to our supply chain and suppliers, while the catalyzers consider family consumption and the operating expenses of government entities.

Impacts of operations are the direct social and economic impacts of the jobs created and maintained or income generated, which also

take into account the effects of our relationships with suppliers, resulting in a continuous chain for the suppliers of our suppliers, and so on, until the economic flow reaches zero, which indirectly fuels the Brazilian economy. Meanwhile, the compensation paid to our employees and the compensation paid to our suppliers support our induced impact of household consumption, in addition to financing public spending, thanks to the tax receipts.

Catalyzing impacts are the impacts of the operations of the ten products analyzed in this study, five of which are related to individuals and five to companies. All products analyzed under this study are related to credit, therefore, the direct impacts are not taken into consideration in this analysis. However, we still have indirect and induced impacts since the introduction of these amounts into the economy results in relationships with suppliers until the economic flow reaches zero (indirect impacts) that lead to an increase in household consumption (induced impacts).

In both cases, we classified three types of impacts that were analyzed in the study: Direct impacts: financial margin, taxes, purchases and sectors of suppliers, production and even number of workers. Indirect impacts: how this disseminates to the different sectors, particularly in the supply chain, such as tier 1, 2, 3, etc., suppliers. Induced impacts: household consumption and operating expenses of public bodies.

In 2017, we contributed indirectly with approximately 5% of the Brazilian GDP and with the maintenance of 7% of the employed population in Brazil. According to this study, each R\$1.00 of direct GDP generated by us contributes to the generation of R\$3.60 of GDP in Brazil. In addition, each job directly held by Itaú Unibanco contributes to the maintenance of 75 jobs in Brazil.

We work to make dreams come true, to boost development, and to awaken the will to do increasingly more and to do it better. We conduct business by always placing ethics ahead of results and consistently seeking innovation and excellence. We grow by helping people and the country to prosper, fostering social progress. We work with civil society and third sector entities with the objective of promoting the articulation of private social investment with causes and public policies in different Brazilian cities, which help us understand our role as a financial institution in society.

We have chosen sponsorships and affiliations that reflect our operating principles. By contributing to associations, we are collaborating with the building of discussion forums and dialog between industry players and society whose activities relate to our interests



as an entity, or to contribute, foster, support and develop civic, business or institutional activities.

We invest in other sectors, in addition to our core business with aim of fostering access to culture, education, health, leisure, sport and urban mobility. It was with this in mind that we founded Instituto Unibanco (Unibanco Institute) in 1982, Instituto Itaú Cultural (Itaú Culture Institute) in 1987, Fundação Itaú Social (Itaú Social Foundation) in 1993, BBA Educação (BBA Education) in 2015 and the Espaço Itaú de Cinema (Itaú Espace of Cinema) in 1995. They were all designed as vehicles for the bank's efforts, in the social sphere, to improve Brazil in various aspects.

Investment in education is one of the driving forces for social transformation and a basic pillar of a country's sustainable development. The higher the quality of education, the more educated and more capable its citizens are of achieving the best employment opportunities and quality of life while strengthening the country's economy, which is key to our business.

We believe that equality in public education promotes access to culture, creating autonomous citizens with a critical capacity to evaluate the reality in which they live and to propose the necessary changes.

Our social investment in education aims to foster universal learning opportunities in formal education, primarily during high school years, through investments by Itaú BBA, Fundação Itaú Social and Instituto Unibanco.

The Fundação Itaú Social continues to contribute to improving education at Brazilian public schools, especially at kindergarten and elementary school level. It has built partnerships at the three government spheres, with civil society organizations and other companies, as the main way to operate in the field of education for children and adolescents.

We wish to draw attention to the initiative Leia para uma Criança (Read to a Child), whose purpose is to encourage reading and story sharing to expand children's cultural repertoire and strengthen affective, family and community bonds. Every year, we send collections of children's books, with instructions on how to mediate reading, to every state.

The Associação Itaú Viver Mais (Itaú Live Longer Association) is a non-profit association focused on people over 55. The program engages in developing public policies that target the elderly, in order to promote governance practices and to qualify the investments by the elderly in funds.

Among the main projects of the Investment in civil society is the Prêmio Itaú-Unicef (Itaú-Unicef Award), which recognizes full-time education projects carried out by civil society organizations in partnership with public schools.

Another important project is the portal Escrevendo o Futuro (Writing the Future), which has 384,000 registered users and provides subsidies for educators to improve their knowledge, innovate in teaching strategies and share experiences.

Where promoting activities that foster culture are concerned, we are presenting the main practices of Instituto Itaú Cultural and the actions of Espaço Itaú de Cinema (a chain of movie theaters), as well as the sponsorships of projects in different fields of culture.

The program of Instituto Itaú Cultural is dedicated to the cinema, with movie sessions, courses and other activities, and music, theater and dance activities.

The Espaço Itaú de Cinema is mainly aimed at providing different views of the movies, creating critical audiences, and bequeathing a legacy to society by always supporting projects that value and reinforce our commitment to the democratization of culture.

The Instituto Unibanco is an organization that works to raise the quality of Brazilian public education, and secondary schools. Therefore, the Institute develops and implements public school system management solutions committed to ensuring that public schools can guarantee the right to education for all students.

The flagship project of Instituto Unibanco is Jovem de Futuro (Young People of the Future), which since 2007 has prepared and implemented management solutions in partnership with public school networks for young people enrolled in the final three years of mandatory schooling.

There is an undeniable positive impact of culture on the dissemination of intellectual wealth for furthering learning in a society. Expanding people's contact with cultural diversity



is a way of creating new paths for social development. By believing in this, we support the democratization of culture through the investments of our foundations and institutes, as well as various sponsorships.

In the case of sport, we believe it makes a significant contribution to building people's critical sense, which motivates us to invest in and sponsor important activities.

We sponsor a range of sporting projects, such as soccer and tennis, with the aim of promoting social inclusion through sport, while training people to promote the practice of sports in order to transform people's quality of life.

Our involvement with soccer began 20 years ago when we sponsored television transmissions like the Brazilian Championship, the FIFA World Cup and the Brazilian Men's and Women's National Soccer Teams, at all levels. In 2015, we also began sponsoring the Chilean National Football Team.

In addition, we have a long relationship with tennis, and we have developed a complete platform for promoting the sport, from beginners, to high performance categories.

Bearing in mind the relevance of emissions from means of transport within the total Greenhouse Gas (GHG) emissions (in urban areas), we believe that offering a sustainable, non-polluting transport option makes an important contribution to the climate change agenda and effectively reduces greenhouse gases of this category.

As our presence is essentially an urban one, we define urban mobility as a pillar of investment within our sustainability platform, promoting the integration of bicycles into the transport model of cities jointly with government and with society.

Our bicycle sharing system started in Rio de Janeiro in 2012 and was later expanded to other cities such as São Paulo (SP), Porto Alegre (RS), Salvador (BA), Recife, Olinda and Jaboatão dos Guararapes (PE) and Belo Horizonte (MG).

In the following year, we started the system in Chile, in Santiago, expanding our operation in Latin America, besides Bike Buenos Aires, in Argentina. The project has reached the mark of 6,899,130 trips since its inauguration, more than 660 thousand registered users and more than 19 million kilometers traveled, which is equivalent to more than 470 round the world.

In order to improve the sharing system and the user experience, Bike Itaú has today leading-edge technology hitherto unheard of in Brazil, with better quality standards to provide more comfort, safety and convenience. The laranjinhas (as the bikes are known) are lighter, ergonomic and resistant.

Since we consider parking lots to be fundamental for encouraging mobility through bicycles, we undertook the construction of five public bicycle stands, the Estações Bike (Bike Stations).

As a financial institution, we recognize our role as an agent of transformation, promoting local development. In this sense, we work to encourage projects, institutions and individuals in an innovative manner, on the path to building a better world.

We have reinforced our commitment to sustainability and good market practices through engagement and sponsorship of various organizations and institutions that support initiatives associated with sustainable development, social and banking responsibility, climate change, women's diversity and empowerment, and market transparency.































1999























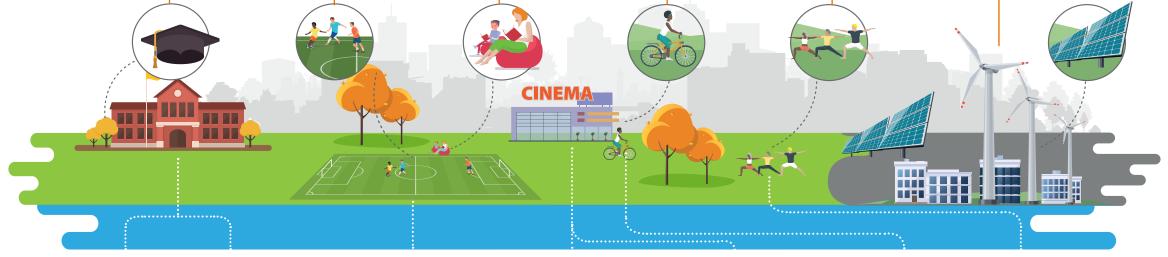






### Sponsorships and **social investments**

	Education	Health and sport	Culture	Mobility	Diversity	Innovation and development	Total
Projects	614	65	367	48	60	284	1,438
Incentivized – R\$ million	13.3	32.7	54.3	-	12.3	-	112.7
Non-Incentivized – R\$ million	271.5	5.6	119.0	74.8	7.6	39.9	518.3





About 5,000 educational managers



3.3 million children, young people and adolescents benefited



**407,000** collections of books distributed



**2.9 million** viewers



**758,000 thousand** people in 1,117 cultural activities



**6.9 million** trips



**9,500** participants

 $Source: Management\ Discussion\ and\ Analysis\ and\ Complete\ Financial\ Statements\ in\ BRGAAP-2018.\ (1)\ Own\ resources.\ (2)\ Resources\ with\ fiscal\ incentive\ through\ laws\ such\ as\ Rouanet,\ Sports\ Incentive,\ among\ others.$ 





government and regulators

### We take our relationships with the government and regulators very seriously, working with them to build public policies that address the interests of society.

In terms of strengthening the institutional causes, we support projects and activities linked to public organizations and other government institutions. We support projects in political education to encourage social engagement and citizenship. We offer political initiation courses, in partnership with the Center for Public Leadership, capable of changing how ordinary people relate to politics, essential for strengthening society's commitment to the democratization of politics.

Monitoring the progress, at all spheres of government, of bills of law involving the financial sector on issues such as taxation, labor law, security, urban mobility, consumer rights and new technologies.

We recently got together with representatives of the Executive and Legislative powers and the academic community to discuss the Taxation Reform, focusing on the Proposal for Constitutional Amendment No. 293 of 2004. We also met with representatives of the Office of the Chief of Staff, the Ministry of Science and Technology, the Central Bank, class entities and the Executive branch to discuss proposals for protecting and handling personal data.

Itaú Unibanco was the only Brazilian financial institution selected for the list of Ethical Companies by the Ministry of Transparency and the Office of the Federal Controller-General in 2017.

In compliance with Brazilian legislation, we do not make donations to political parties or to candidates for election. In 2016, we updated our Internal Policy on Donations, prohibiting any kind of direct donation to government employees and their immediate family members, second degree relatives or relatives by kinship, and to government bodies or entities and candidates of political parties.

We are subject to Brazilian anticorruption legislation, and similar legislation in other countries where we have branches and operations, as well as other cross-border anticorruption laws and regulatory regimes. These laws require the adoption of integrity procedures to mitigate the risk that any person acting on our behalf may offer an improper advantage to a public agent in order to obtain benefits of any kind.

In January 2014, a new Brazilian anti-corruption law came into force. The new law establishes that legal entities will have strict liability (regardless of fault or willful misconduct) if they are involved in any form of corruption.

Although known as an anticorruption law, it also encompasses other injurious acts contrary to the Brazilian or foreign public administration including bid rigging and obstruction of justice.

The law provides for heavy penalties, both through administrative and judicial proceedings including determination of dissolution of a company, prohibition against undertaking to finance with public entities and prohibition against participating in public biddings. In addition, the law authorizes the public administrative authorities responsible for the investigation to enter into leniency agreements. The self-disclosure of violations and cooperation by legal entities may result in the reduction of fines and other sanctions as determined by the new federal regulation issued in March 2015. The new regulation also provides parameters for the application of the anticorruption law including with respect to penalties and compliance programs.

We are subject to regulation by, and supervision of, several entities, in the countries and for the segments in which we operate. The supervisory activities of these entities are essential to the structure of our business, and they directly impact our growth strategies.

The National Monetary Council (CMN, acronymin Portuguese) is the highest authority responsible for establishing monetary and financial policies in Brazil, overall supervision of Brazilian monetary, credit, budgetary, fiscal and public debt policies, regulating the conditions for the organization, operation and inspection of financial institutions, as well as supervising the liquidity and solvency of these institutions. The CMN is also responsible for the general guidelines to be followed in the organization and operation of the securities market and the regulation of foreign investments in Brazil.



The Brazilian Central Bank (Bacen, acronym in Portuguese) is responsible for implementing the policies established by the CMN, authorizing the establishment of financial institutions and supervising them in Brazil. It establishes minimum capital requirements, limits for permanent assets, credit limits and reserve requirements, in accordance with the policies established by the CMN.

The Brazilian Securities Commission (CVM, acronym in Portuguese) is responsible for regulating, applying sanctions and inspecting the Brazilian securities market (which in Brazil includes derivatives) and its participants, as well as overseeing the stock exchange and organized over-the-counter markets.

The B3 S.A. – *Brasil, Bolsa, Balcão* (Brazilian Stock Exchange) is one of the world's largest financial market infrastructure companies, providing trading services in an exchange and OTC environment.

The Brazilian National Commission of Private Insurance (CNSP, acronym in Portuguese) is responsible for establishing the guidelines and

Main rates (%)	
Income tax	15.00
Additional income tax	10.00
Social Contribution on Net Income	20.00
Social integration program (PIS, acronym in Portuguese)	0.65
Contribution to financing social security (Cofins, acronym in Portuguese)	4.00
Tax over services (ISS, acronym in Portuguese)	até 5.00

Source: Management Discussion Analysis and Complete Financial Statements in BRGAAP – 2018.

Learn more about taxes and government contributions

directives for insurance and premium bond companies and open private pension entities.

The Brazilian Superintendency of Private Insurance (Susep, acronym in Portuguese) is responsible for regulating and supervising the insurance, open private pension funds and premium bond markets in Brazil and their participants.

The National Agency of Supplementary Health (ANS, acronym in Portuguese) is responsible for regulating and supervising the health insurance market in Brazil and its participants.

Given our overseas shares and assets, we are subject to information requirements under the 1934 U.S.

Securities Exchange Act, as amended, for foreign private issuers. Outside Brazil, our main operations are subject to oversight by local regulatory authorities in the following jurisdictions: South America, in particular Argentina, Colombia, Chile, Uruguay and Paraguay; Europe, in particular, the United Kingdom and Switzerland; Central America in particular Panama, and the Caribbean, in particular Bahamas and Cayman Islands; and the United States of America.

Applicable transnational legislation, such as the U.S. Foreign Corrupt Practices Act and U.K. Bribery Act, as well as the applicable Brazilian legislation (mainly Brazilian Law No. 12,846/2013 – the Brazilian

Anticorruption Law), require us, among other things, to maintain policies and procedures aimed at preventing any illegal or improper activities related to corruption involving government entities and officials.

We are also required to maintain precise records and a system of internal controls to ensure the accuracy of our books and prevent illegal activities. We have policies and procedures designed to prevent bribery and other corrupt practices. Our operations in Brazil and overseas attract different taxation and obligations, according to the country where we operate.

During the normal course of our business, we may figure as parties to labor, civil and fiscal court proceedings. The criteria for quantifying the contingencies are adapted to the specific characteristics of the civil, labor law and fiscal portfolios, as well as other risks.

Fiscal and social security lawsuits are those filed to contest the legality and unconstitutionality of the prevailing legislation for which provisions have been made irrespective of the likelihood of loss. Tax contingencies represent the principal amount of the taxes involved in administrative or judicial fiscal discussions, assessed under the tax authority's own initiative, plus interest and, if applicable, fines and other charges.

We engage in dialog with players in different sectors, while participating in drafting self-regulation policies respecting and protecting fundamental human rights and we are signatories to the Universal Declaration of Human Rights, the International Covenant on Civil and Political Rights, the International Covenant on Economic, Social and Cultural Rights, and the International Labor Organization (ILO).

Learn more about the covenants and declarations we are signatories to





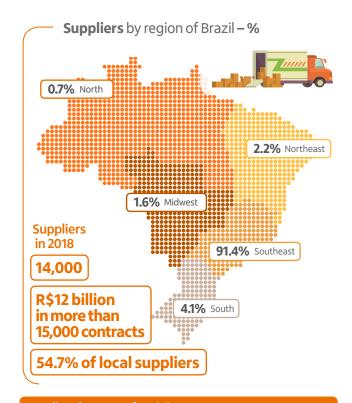
### The hallmark of our relationship with our suppliers consists of transparency, continuity and the building of shared value.

These partnerships are established by means of a formal hiring process, the purpose of which is to minimize the possible financial, reputational, operational and legal impacts during the provision of the service or after the termination of the contract.

We have no relationships with organizations that embrace hard labor or child labor in violation of the legislation or that explore prostitution.

Our suppliers submit to a validation process consisting of an analysis of their adherence to environmental and social responsibility practices, compliance with and adherence to legislation.

As part of our social responsibility, we seek to engage with suppliers in all regions of Brazil, according to the volume of our operations and proximity to the administrative hubs, where the focus is on local suppliers.



# Suppliers by type of activity (%) Construction, maintenance and property 30 Advisory and consulting 16 Information technology 12 Marketing 12 Training and benefits 4 Others 26 Total 100

Source: Sustainability Report – 2018.

The **purpose of the supplier evaluation** process is to mitigate risks in our supply chain.



Register on site



Internal demand



Administrative analysis



Technical analysis



Approved company



Monitoring

### Purchase process

### **Pre-Purchase**

Analysis of historical purchases

Market analysis

Evaluation and specification of the scope

Definition of strategy for the purchase of goods and services Prospecting and administrative and technical evaluation of suppliers

### **Purchase**

Competition or negotiation process

Development of Contractual Instruments

Signature of Contractual Instruments

#### **Post-Purchase**

Monitoring of the delivery of the material or service and the performance indicators to verify adherence to quality standards/established service level agreements

Performance and risk assessment of suppliers to support the demand for decisions, which may result in the preparation of action plans to mitigate supply risks

Monitoring, management of consumption and validity of contracts and centralized management of procurement processes and renewals Relationship management with key suppliers to ensure efficiency throughout the contract life cycle

Monitoring of suppliers' financial, reputational, regulatory, social and environmental conditions

Learn more about our suppliers



### A human capital

# We have always been convinced that the great power of transformation rests with people.

Recent years have seen an increasing wave of business in search of a purpose besides profit.

And the intention behind this trend is simple: companies with a purpose enjoy better long-term financial results.

In 2017, we disclosed to our employees the purpose of Itaú Unibanco, highlighting the values that are part of our essence and which have brought us this far.

The meaning of our trajectory and our purpose is to be able to encourage the transformation of people. Behind everything we do there are people. People with ideas that become solutions that change other people's lives. Disclosing our purpose is part of the reassertion of our reason for existing, increasing the power in everyone to invent and reinvent themselves. To do so, all our employees need to be on the same page.

The purpose of Itaú Unibanco wasn't born in 2017, it has always existed within all those who have been part of this organization and who are now continuing this legacy. We are people moving people.

However, having a purpose is not enough. We must ensure that it permeates the corporate practices and that is aligned with the objectives and targets of the leaders who manage the company.

We have always had the conviction that the enormous power of transformation resides in people. It is they who make us evolve, guaranteeing sustainable results and driving our capacity to create value for society and for the country. Our challenge is to be increasingly attractive to all generations and to engage with and develop our talent. That is why we have consistently invested in disseminating our purpose and what we call Our Way – a strong culture marked by collaboration, meritocracy, ethics and total, unrestricted respect for individuals.

If the bank consists of human capital, providing employees with the best experience to enable them to further their development is fundamental. With this in mind, we have reviewed our work models, seeking to foster people's autonomy and mobility, making them increasingly feel like owners of the business and their own careers.

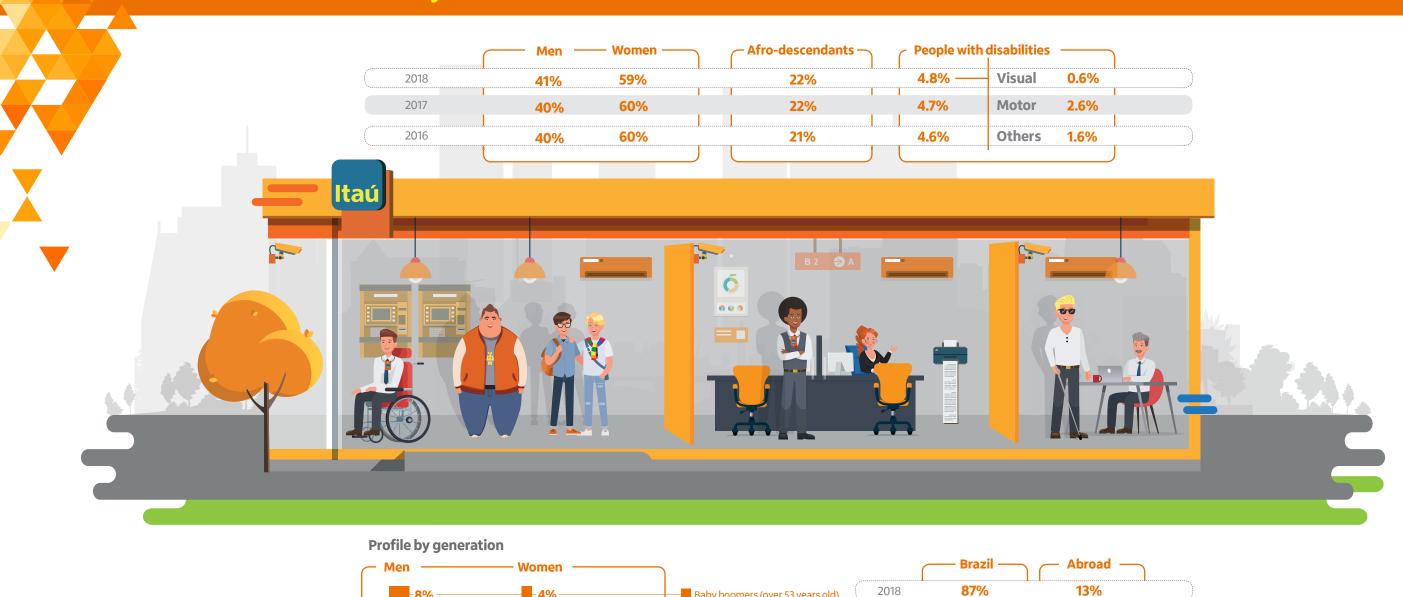
During 2018, we intensified our efforts related to our agenda with our employees, and in the section on People management we describe the main initiatives that will see us change leagues.

Employees by position – 2018	
Total	100,335
Directors	0.1%
Management	14.9%
Administrative	37.7%
Commercial and Operational	38.5%
Trainee	0.1%
Internship	5.9%
Apprentice	2.7%

Employees by gender and position – 2018					
	Women	Men			
Total	59%	41%			
Directors	13%	87%			
Management	52%	48%			
Administrative	51%	49%			
Commercial and Operational	69%	31%			
Trainee	38%	62%			
Internship	56%	44%			
Apprentice	71%	29%			

Source: Sustainability Report - 2018.

## Profile of our **diversity**



Baby boomers (over 53 years old)

2018

Generation X (aged between 41 and 52 years) 86% 14% 2017 78% Generation Y (aged between 18 and 40 years) 2016 **85% 15%** Learn more about **our employees** 





## Our distribution channel for all products and services we offer to clients.

Our distribution network is divided into traditional channels which include branches, PABs (banking services outlets located at corporate clients), ATMs, telephones and digital channels like Internet Banking, cell phones and SMS.

Our branch network is our distribution channel for all products and services we offer our customers. In 2018, we had 93 specially refurbished branches providing services in shopping malls, with a new visual identity and service proposal. These areas reflect a new concept in customer service, being equipped with a differentiated layout inspired in the design of a retail store. Focusing on customer relationships, these branches have differentiated business hours from regular branches (which are normally open from 10 a.m. to 4 p.m.). Moreover, in 2018 we reached 195 digital branches, in line with our Digital Channels strategy. Likewise, we have also changed the opening hours of certain branches located in commercial centers, which open from 8 a.m. or 9 a.m., and close at 6 p.m. or 8 p.m. The aim of this initiative is to adapt our services to the routine of our customers.

The range of services offered at PABs can be the same as that of a full-service branch or more limited, according to the size of the corporate client and their requirements. PABs are a low-cost



alternative to opening full-service branches. In addition, we believe they afford us the opportunity to capture new retail customers while serving corporate clients and their personnel. ATMs are a low-cost alternative to services performed by employees, enabling us to provide service outlets at significantly lower costs than at branches. Our customers can do practically all transfers related to bank accounts using automated teller machines. In addition to all our traditional customer service channels (branches, PABs and ATMs), we also have a partnership with the TecBan ATM network, which provides customers with limited services – primarily withdrawals.

Since 2012, we have provided differentiated services to certain registered customers. In addition to the services available to our customers in general, certain registered customers can make withdrawals and check their current account balances and statements using biometrics. Biometrics allows these registered customers to carry out banking transactions using fingerprint identification without having to enter a password or use their card, providing greater security and convenience. To use the biometrics, just register at any branch of Itaú Unibanco.

An essential part of this transformation is the increasing use of mobile devices with Internet access, reflected in the increasing use of mobile banking which rose by 23% for individuals and by 21% for businesses in comparison with 2017. Against this background, in 2018 we made significant enhancements to our technology platforms, which were also enhanced to provide customers with a more intuitive experience while offering a larger range of products and services.

In relation to our facilities, we remain owners and renters of our main administrative offices, which include office buildings at ten different addresses, and a total area of 446,050 m², located primarily in the city of São Paulo, Brazil. These offices include our headquarters, as well as several other administration buildings whose functions include commercial departments, support activities, the Wholesale Bank, the Investment Bank and our data processing center.

We also lease from third parties part of our administration offices and most of our banking branches at competitive prices and under renewable lease agreements whose expiry periods range from the first half of 2018 (currently being renewed on the same conditions) until the first half of 2037.



### intellectual capital

# The results achieved over the last decades reinforce the importance of our managers in conducting the business.

Our performance and success depend on the talent and efforts of highly qualified professionals. Attracting and retaining talent is one of the key pillars supporting our organization's results, where the emphasis is on customer satisfaction and sustainable performance. Our ability to attract, develop, motivate and retain the right number of qualified personnel is crucial to our performance and our ability to achieve global success. At the same time, we aim to provide our employees with a differentiated experience, so that we are able to attract and retain highly qualified professionals who value environments that offer equal opportunities and who wish to build their careers in dynamic and cooperative work places that encourage diversity and meritocracy and which are up to date with new work models. Our current business scenario requires us not only a careful look at traditional careers, but also new careers than are essential to our future.

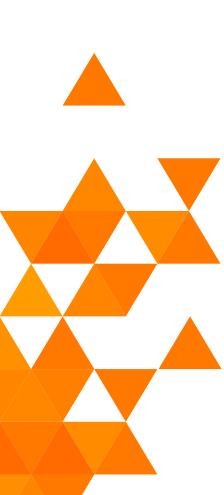
The results we have achieved over recent decades underline the importance of our management in guiding our business. The experience and skills of our managers are essential to the sustainable growth of our business. As an example, the conclusion of the acquisition of 49.9% of XP Investimento, announced in 2018, strengthens our business model by expanding the portion of services revenue through a minority interest. Additionally, in 2018 we agreed a strategic partnership with

Ticket, through a minority interest of 11%, which has enabled us to add the benefits issued by the company to our customers in the wholesale segment and to micro, small and mid-size companies.

Our Board of Directors consists of professionals with exceptional knowledge and expertise in different areas of operations, some of the key differentials of our management who are working in an ethical and sustainable manner to efficiently allocate capital and create value for our shareholders and other stakeholders.

Over the ten years since our merger, we have been able to produce consistent results, achieving increasingly higher performance levels which, since 2008, have enabled us to achieve an average return on equity (ROE) of 22%.





### 🝘 natural capital

### The perennial nature of natural capital represents one of the main challenges of the present and the future.

We are a services business, and although on a smaller scale than in the industrial sector, our operations also exploit natural resources such as water, for both direct use and for generating energy in the case of the operations in Brazil, and the generation of solid waste and electricity consumption. In addition, we are measuring the emissions from our financing and investment activities to understand our indirect impacts and take initiatives that mitigate these. We are members of the Benchmark Club of the Carbon Disclosure Program (CDP) Latin America, in addition to be a component of the portfolios of the Corporate Sustainability Index (ISE), the Carbon Efficient Index (ICO2), and the Dow Jones Sustainability Index (DJSI), which produces an annual report on our emissions. Within this context we have taken measures to directly and indirectly reduce our GHG emissions and other pollutants associated with our business.

We have contingency plans and actions to mitigate and improve water consumption efficiency in our businesses. The main initiatives were the installations. of flow reduction devices, rainwater capture and campaigns for the conscious use of water.

We invest in an energy matrix of renewable sources for the maintenance of our operations. Energy from biomass plants or wind farms is also used on a smaller scale.

We remain constantly focused on the management and rational use of natural resources, a strategy that allows us to reduce the impact of our operations and increase our operational efficiency. All the initiatives we have developed in relation to eco-efficiency are based on four pillars: deployment cost, market availability, technical performance of the system and efficiency gains.

Goal (between 2013–2021) Reduce consumption by				
Electricity consumption (MWh)	Renewable	Non-renewable		
2018	209,795	397,152		
2017	218,609	351,885		
2016	203,920	409,254		
	•			

<b>Goal</b> (between 2018–2021)					
Reduce		49	Scope 1		
emissior	ns by	69	Scope 2		
	Scope 1	Scope 2	Scope 3		
2018	19,521	50,898	158,263		
2017	7,960	66,848	169,526		
2016	10,895	54,340	99,556		



Water consumption (m³)		
2018	1,449,038	
2017	1,390,142	
2016	1,410,592	

**Goal** (between 2013–2021)

Reduce consumption by

Waste creatment (t)	Landfills, composting and other	Recycling
2018	28,490	859
2017	24,609	828
2016	1,586	3,508

**Goal** (between 2017–2021)

4% Reduce disposals by to landfills.

Learn more about operational eco-efficiency



The main actions related to the theme were the installation of LED lamps and the replacement of equipment with high energy consumption.

We continuously invest in projects that contribute to the reduction of our emissions. Scope 1 covers direct emissions from combustion, mainly diesel oil. Scope 2 covers indirect emissions in electricity consumption. Scope 3 contemplates emissions from transportation of employees, generation of solid waste and business travel.

We remain alert to initiatives and programs that promote the reduction and correct disposal of waste. We have expanded our coverage of waste management, including the branch network. The amount of waste destined for landfills increased in comparison with the previous year, reflecting better management and control of the indicators.

We also offer financing facilities for projects that mitigate the impacts of climate change. We have partnered with the IDB, CEF, IFC and the BNDES to finance renewable energy and low-carbon economy projects. Our position on climate change is available on our site and gives details on these and other initiatives.

To enhance environmental management at our facilities, we applied for international environmental certifications and, in 2017, we began the certification process of the Itaú Unibanco Corporate Center (CEIC) to ISO 14001, which affords us more efficient management at this hub where 10,000 employees work. Adding to this ISO 14001 certification implemented since 2011 at our Tatuapé Administration Center, the number of employees certified by ISO 14001 rose from 15% to 40%

in relation to last year. By 2020, we will work to certify two other major administration hubs, still to be defined, in order to increase certification coverage at our administration hubs.

Also in 2016 we achieved triple LEED Gold seal certification at Edifício Faria Lima 3500, a certification for sustainable constructions conceived and awarded by the U.S. Green Building Council (USGBC), the most recent being the LEED O+M (Operation and Maintenance) modality, complementing the previous awards under the LEED BC+C (Building Conception and Construction) and LEED ID+C (Interior Design and Construction) modalities, adding to the previous LEED NC (New Construction) modality obtained for the CTMM (Mogi Mirim Technology Center). Throughout last year, we tested at our branch network new concepts in construction though two projects which, by accompanying their actual results, will generate eco-efficient items that can be replicated during future refurbishments of our premises. The refurbishment concepts begin with the principle of respecting the existing structure and materials in the building, to produce less waste during the refurbishment work.

To track these transformations, in 2017 we implemented a strategic agenda of six strategic fronts, and in 2018, we launched the changing leagues objective in order to begin comparisons with the world's best companies in client satisfaction, not just with our direct competitors in the banking sector. This is a challenging goal that will demand of us constant evolution in our initiatives and in adjustments to our processes.

Next, our Executive Committee will present our business model, the competitive differentials of our corporate governance and the importance of our strategic fronts that guide us in our quest to change leagues.

Sincerely,



Pedro Moreira Salles
Co-Chairmen of the
Board of Director



Roberto Setubal
Co-Chairmen of the
Board of Director

Learn more about **our executives' experience** 



Message from the Executive Committee

### About the **business** GRI 102-2

We are a 100% Brazilian financial holding company. Our focus is on banking business in Brazil and in Latin America. Our business model, intended for creating value, prioritizes credit transactions, services, insurance and investment.

Dear reader,

Itaú Unibanco is Brazil's largest private bank – and one of the world's largest companies, according to the Forbes ranking considering aspects like business generated, assets and market value. However, our objective goes much further.

The rationale behind our business lies in the view that as a bank we must contribute so that people and businesses have a healthy relationship with money and make good financial choices.

With 95 years of history and tradition, our aim is foster positive changes in people's and lives and that of society. Our responsibility for the country's development is our essence.

Our business model encompasses three main activities: credit, insurance and services, and trading. Each activity has risks and specific capital

requirements. Credit transactions require more capital, while insurance and services have a lower cost of capital and are more profitable.

Managing the combination of these activities means we have a more robust profitability. Our business structure is divided into three segments of operations: The Wholesale Bank, the Retail Bank and Activities with the Market and Corporations. Each segment is classified according to the profile of our customers and the types of products and services they procure.

Through these segments, we offer our customers an extensive range of financial products and services at units strategically located in the Americas, Europe and Asia.

Our international presence creates important synergies, primarily in trade finance, placement of Eurobonds and offering our customers more sophisticated financial transactions.

### **The Retail Bank**

Offer financial products and services to retail customers, high-income customers and micro and small business, as well as products and services to non-account holders, including vehicle financing, credit cards outside the branch network and credit transactions closed with banking correspondents.

In this segment, Banco Itaú de Varejo is our main business. Through its operations, we offer an exclusive service structure to customers throughout Brazil. Banco Itaú Uniclass offers exclusive services such as investment consulting, exclusive ATMs, special telephone services, higher credit limits and a dedicated relationship team.

Banco Itaú Personnalité provides specific financial advisory services to our high-income clients and special benefits based on the client's relationship history. We attend to our clients through a special branch network in the main Brazilian cities. Personnalité customers also have access to Itaú Unibanco's branch and ATM nationwide network, as well as to banking services internet, telephone and mobile banking.

We offer our customers a digital platform where relationship managers are available on business days by phone, email, SMS, video conferencing or online chat from 8am to 10pm (for Uniclass and Personnalité customers) at no additional cost.



The Retail segment represents an important source of funding for our operations and generates a significant volume of financial revenue and bank tariffs.

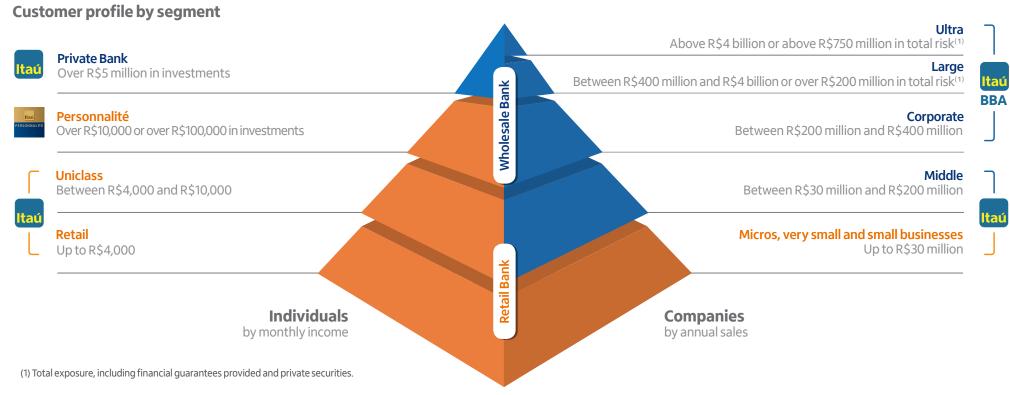
### The Wholesale Bank

Looks after customers with high financial net Worth (private banking), through the units in Latin America, banking for middle market and large companies and corporations through the activities of Itaú BBA, the unit responsible for corporate customers and in its role as an investment bank. We provide banking services to major corporations and we raise funds for the large company segment, including fixed and variable income instruments.

Our activities in this segment range from capital market transactions to consultancy in mergers and acquisitions. These activities are fully integrated, which enables us to achieve a personalized performance adjusted to our customers' requirements. Our Corporate Investment Bank operations are current present in 19 countries.

## Activities with the market and corporations

Manages the financial income associated with our capital surplus, subordinated debt surplus, the carrying cost of the net balance of tax credits and liabilities, the net interest margin from trading financial instruments through proprietary positions, managing interest and Exchange rate gaps and other risk factors, arbitrage opportunities in local and international markets, marking-to-market of financial instruments. This segment also includes our equity holding in *Porto Seguro*.



## Business model

Our vision is to be the leading bank in sustainable performance and client satisfaction.

Our purpose is to stimulate the power of transformation of people.





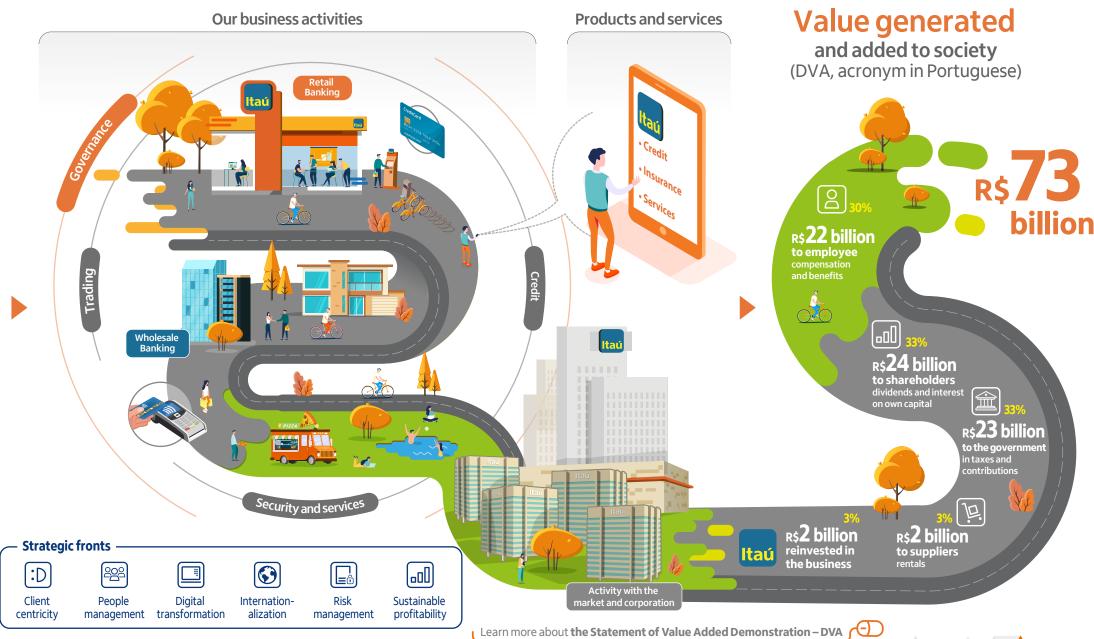


Human 100,000 employees

Intellectual
R\$29.8 billion
in brand value

Manufactured
4.9 thousand branches
and client
service branches

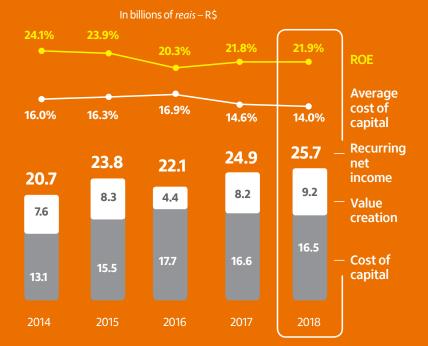
Natural
Water and energy
consumption, waste
disposal and emissions

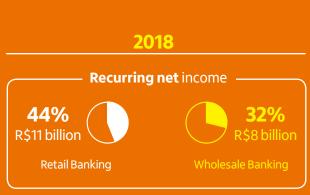


### Value **creation**

In 2018, we achieved a recurring net income of R\$25.7 billion and we made the largest distribution of results in our history.

We present below the main results obtained by our business in 2018, according to management criteria adopted in managing and defining the business strategies. These values reflect our commitment to creating value for our shareholders.





Source: Management Discussion and Analysis and Complete Financial Statements in BRGAAP - 2018.

### Products and services

We are always striving to implement and prioritize the offer of new products and services that add value to our clients while diversifying our revenue sources, enabling us to grow our non-financial revenues arising primarily from fee income and from insurance, pension plan and premium bonds.

Improving our **credit portfolio** and reducing the volume of non-performing loans remained our target in 2018.

To maintain and enhance our sustainable performance, we have enhanced our credit processes, policies, and tools, and intensified our credit collection and recovery efforts.

Most of our loans are for customers domiciled in Brazil and are expressed in *reais*. However, a portion is indexed to foreign currencies, mainly to the United States dollar. The portion of our portfolio in foreign currency consists of loans, import and export finance and onlendings transactions.

For managerial purposes, we classify our loan portfolio according to the type of operation contracted, the profile and the location of our clients.

Transactions with individuals consist basically of credit cards, personal loans, payroll loans, vehicle financing and mortgages. Transactions with micro, small and medium enterprises cover products such as working capital finance and discount of duplicates.

Most of the credits granted to companies in this segment require collateral such as machinery, equipment, accounts and checks receivable or credit card receivables, and may also be guaranteed by the partners or shareholders of the company or by third parties.

Learn more about our results in the period



**Customer satisfaction** 

Itaú Unibanco Integrated Report 2018

\$ Value creation

Integrity and ethics

**✓** Financial inclusion and guidance

Transactions with large companies are intended for to large corporate clients. Interest rates can be fixed or variable, depending on the product chosen by the customer. In addition, these loans require a socioenvironmental assessment to cover the risks of the transaction and to adapt the clients to our policies. Transactions with Latin America include loans granted by our operations in Argentina, Chile, Colombia, Paraguay and Uruguay.

Irrespective of the rating, all credit transactions receive an internal credit score that establishes the cut-off limit for each product line. In the case of pre-approved credit, if the customer's risk profile is within the cut-off limit and the parameters set out in our credit policy, the credit will be considered as pre-approved and will be automatically available to the customer. In cases where the credit is not pre-approved, there is a traditional credit analysis, individually evaluated by a credit specialist. During this process, a credit desk decides approvals, since commercial managers have no discretionary limit for approving individual proposals.

### **Foreign currency** loan portfolio In millions of *reais* – R\$



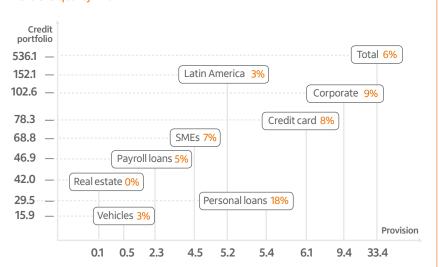
### **Credit portfolio** by type of product

In billions of *reais* – R\$





### **Loan portfolio and provision for losses** (In billions of *reais* – R\$) - Portfolio quality – %



### Loan portfolio

by business sector Companies – %

### Real estate 6%

( Agro and fertilizers 5%)

Transportation 5%

Food and beverage 6%

Vehicles and auto parts 4%

Energy and water treatment 5%

Infrastructure work 4%

Petrochemicals and chemical 3%

Financial Institution 4%

Other sectors 58%

 $Source: Management\ Discussion\ and\ Analysis\ and\ Complete\ Financial\ Statements\ in\ BRGAAP-2018\ and\ Complete\ Financial\ Statements\ in\ IFRS-2018.$ 





### Our virtual card brings greater comfort and security

Learn more D

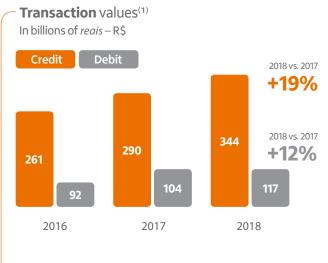
## We are the Brazilian **credit card** market leader.

Through our own operations, primarily Itaucard and Hipercard, as well as cards of associations and commercial agreements with important retailers, telephone operators, car manufacturers and airline companies established in Brazil.

Our main goals in the credit card segment are to promote the growth of our portfolio, improve its profitability, manage the quality of our assets and seek the satisfaction of our customers.

In the case of customer service, we provide apps that can be used 24 hours a day. Our apps have constantly added new functionalities, such as hire personal loan, unblocking new credit card, balance checking, product redemptions under the Loyalty Program and the Virtual Card, which simplifies and offers more security for online purchases. Another feature of this application is the timeline, which allows viewing of purchases and transactions in real time. The app also offers control of spending by category, enables the card to be activated and deactivated, virtual assistance and travel notifications.

In 2018, our portfolio grew notwithstanding the maintenance of our strict credit policies. Delinquency and risk indicators for our credit card business remained well below the market average.



### Number of cards<sup>(1)</sup>

42.2%

In millions of units (do not consider additional cards)

2018 vs. 2017

30.3

29.3

28.1 +6%

2018 vs. 2017

25.7

2016

2017

2018

### Market share – Credit cards<sup>(2)</sup>

n the Brazilian

credit card market

Our main competitors in this sector are:

Banco Bradesco S.A.

Banco Santander (Brasil)

Banco do Brasil S.A.

Caixa Econômica Federal

The number of new and smaller digital competitors entering this market, including Nubank and Banco Original, has increased in recent years.

### **Our brands**









**Exclusive** benefits 50% off



### **Loyalty** program

With each purchase, the customer earns points that accumulate and can be exchanged for discounts, rewards and more.

We also have partnerships with major retailers, telephone operators, automakers and airlines in Brazil.



Learn more about our cards

Source: (1) Management Discussion and Analysis and Complete Financial Statements in BRGAAP – 2018; and (2) Itaú Unibanco Holding and ABECS.



We operate in the **acquiring** and electronic payment solutions industry in Brazil.

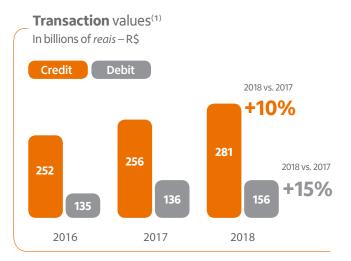
Our acquiring business consists the accreditation process, capture of transactions through affiliation, management and relationship with merchants, based on our brands Rede and Pop Credicard. Rede is one of the leading companies in the electronic payment solutions industry in Brazil and is a multiple label acquirer of transactions with credit, debit and benefits cards.

We operate with the anticipation of receivables for commercial establishments, resulting from credit card sales, and we rent point-of-sale terminals (POS), while offering e-commerce solutions and e-wallet solutions and check consultation via these terminals.

We have begun restructuring of our acquiring business model, whose priority is to integrate these businesses into our banking operations, strengthening our direct sales channels and digital transformation.

Pop is our family of card devices for small businesses and microentrepreneurs. The main differentials of Pop are the shorter payment terms and the lowest rates on the market.

In 2018, the amount transacted with credit and debit cards increased, as the market opened up at the end of last year. The launch of the Pop Credicard family of machines, better customer retention and the adjustment of pricing to the competition contributed to the increase in the equipment base compared to the previous year.





Source: (1) Management Discussion and Analysis and Complete Financial Statements in BRGAAP – 2018; and (2) Itaú Unibanco Holding and ABECS.

Learn more about *Rede* 







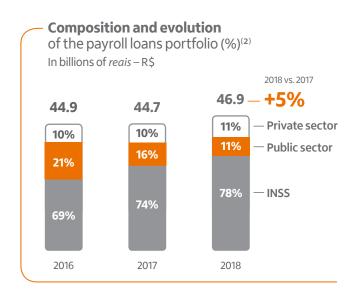
### Payroll **loans**

In Brazil, payroll loans are a type of specific loan extended to employees and pensioners of the pension system, as borrowers, and banks as creditors, whereby fixed monthly installments are deducted directly from the payroll or the borrower's pension, as the case may be, to settle the amount due to the creditor. Our strategy is directed mainly to pensioners of the Brazilian pension system and employees of public and private companies.

This strategy allows us to expand our commercial activities with historically lower credit risk, reaching a competitive position in the offer, distribution and sale of payroll loans in Brazil.

Our portfolio grew notwithstanding the maintenance of our strict credit policies, with emphasis on the INSS pension fund portfolio. Delinquency and risk indicators of our payroll loan business continued well below the market average.





Learn more about payroll loans



Source: (1) Management Discussion and Analysis and Complete Financial Statements in BRGAAP – 2018; (2) Complete Financial Statements in IFRS – December 31, 2018; and (3) Itaú Unibanco Holding and ABECS.

### **Mortgages**

Since 2008, we have been leaders in the mortgage market for individuals among Brazilian private banks in terms of the total size of our portfolio. This reflects our focus on aligning the business with our strategy of migrating to lower risk portfolios.

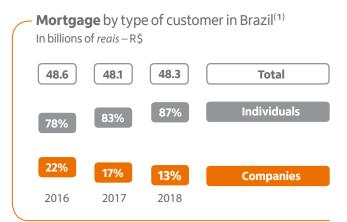
We have a number of sales channels that are utilized for purposes of mortgage financing products, such as our branch network, construction and development companies, mortgage agencies and partnerships with RE/MAX, a realtor company, and CrediPronto, a mortgage financing company.

Credit approval is based on assumptions involving the portion of the customer's income committed to loan repayments, the customer 's rating according to our internal rating system, and the ratio of the amount of the loan to the value of the asset (Loan to Value – maximum LTV).

Our process is expeditious and efficient, and it takes us less than one hour to get back to the client for loans up to R\$800 thousand. This financing process can be fully digital. In addition, the client has access to a specialized mortgage consultant to provide all the support needed during the process.

Our credit simulator is present on the websites of real estate developers and partners, bringing our brand closer to the client when they are still choosing their property.







**57.8%** Average annual vintage<sup>(1)</sup> Loan to Value

38.7% Portfolio(1) Loan to Value

Source: (1) Management Discussion and Analysis and Complete Financial Statements in BRGAAP – 2018; and (2) Itaú Unibanco Holding and ABECS.





We offer exclusive products and services to our clients who contract **vehicle** financing.

We receive proposals to finance vehicles through existing partner dealerships throughout Brazil or directly in our traditional or digital channels for account holders.

A fixed interest rate is defined based on the credit rating and according to the characteristics of the transaction. All vehicle financing operations are secured by fiduciary disposal of the asset itself, and the maximum LTV is set to withstand any periods of stress.

We provide an additional line of credit for the purchase of automotive accessories and services. Our goal is to achieve a 30% penetration in sales through financing and expand sales to companies and corporations within five years.

In addition, we launched a series of products and services in 2018. The iCarros product, a classified ads portal, offers a number of solutions to optimize reseller sales, such as iCarros Club, a B2B business platform for used vehicles.

The opportunity manager, in turn, is a service that concentrates opportunities from different sites in a single interface for the reseller and communication takes place on WhatsApp.

The call qualifier records the calls and identifies whether customers have any pre-approved vehicle financing, while the stock integrator automatically synchronizes the car inventory on different classified sites.

We have also launched an application platform, also available in the mobile version, which offers a simple and complete experience for resellers, making it easier to calculate, contract and manage the financing flow.

Digital Retail, online calculator and credit application feature that allows customers to quote a vehicle financing anywhere they want to. Due to our open banking system we were able to plug this tool not



only in iCarros, but also in many partners' website, like Jaguar, Land Rover, Fiat Chrysler Automobile, Mitsubishi Motors, and OLX.

In July 2018, we became the financial partner of Jaguar and Land Rover in Brazil.

Finally, we launch the protected purchase and sale, an escrow account that mediates the payment between the parties involved in customer to customer car sales transactions, making these transactions safer for both buyers and sellers.



#### **Partnerships**





Origination and portfolio<sup>(1)</sup>
In billions of reais – R\$

Origination

Portfolio

15.0



41 months 39% of the value R\$32,100



% average down payment



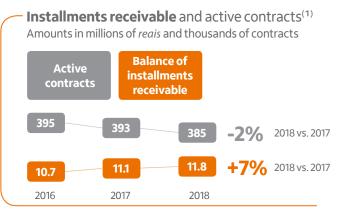


## Consortia **operations**

Consortium is a pool of people and/or legal persons in a group with the purpose of allowing their members, on an equal basis, to acquire assets, such as vehicles, properties, or services, through self-financing.

The payments made by the group participants are applied to a common fund, used by one or more members of the consortium at a time, to acquire the assets elected by the members when the product was contracted. In general, the participants receive the asset during the validity of the contract by means of a random drawing, bid offering with their own cash resources, part of a letter of credit or their FGTS balance (only for a real estate Consortium), with the exception of the random drawing, the other options may be combined.

As consortia are regarded as a provision of services under Brazilian law, the management of consortia does not give rise to default risk or regulatory capital requirements for us. In addition, since Consortia do not charge interest rates, our revenue comes mainly from administration fee charged to clients.





Source: (1) Management Discussion and Analysis and Complete Financial Statements in BRGAAP – 2018; and (2) Itaú Unibanco Holding and Bacen.

Learn more about our consortia operations



#### Public **setor**

Our public sector segment engages with all areas of government at federal, state and municipal level (the Executive, Legislative and Judiciary powers).

# We serve approximately 5.8 thousand clients in the public sector.

We attend to these customers using exclusive platforms that differ from those in the branches of the retail bank, with teams of managers specially trained in providing personalized solutions for collecting taxes, foreign exchange services, public asset management, payments to suppliers, civil and military personnel payrolls and pensions.

## **Investment** and funding

We offer our customers a full range of investment products and we are one of the leaders in the asset management market.

We offer our customers the *Investimento* 360, na open investment platform providing a full advisory service, analyzing, selecting and recommending the best investment products in the market, whether Itaú Unibanco products or those of other institutions, with total transparency.

We zeroed our custody fees for the *Tesouro Direto* (direct purchases of Treasury Bonds), fixed income, in addition to the carrying cost when joining or leaving PGBL and VGBL pension plans. The benefit is not a promotion, rather it is valid for all our customers.

The main investment options are savings accounts, Bank CDs and fixed income, investment funds, the stock market, direct purchases of government securities (*Tesouro Direto*) and private pension products.

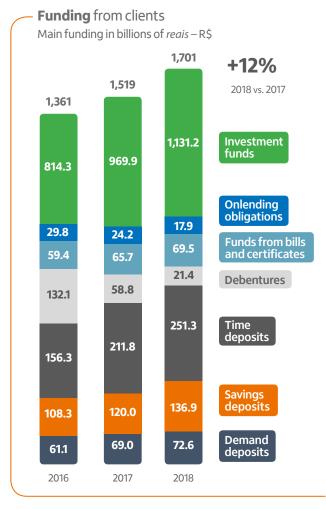
#### Securities **broker**

Itaú Corretora has provided brokerage services on B3 S.A. (*Brasil, Bolsa, Balcão*) since 1965. We offer these services to international customers through our broker in New York.

We serve more than 172,000 retail clients in Brazil with positions in the stock and fixed income markets, accounting for a trading volume of approximately R\$41 billion in 2018.

Revenues from economic and financial advisory and brokerage services increased due to greater activity on the capital markets.





Source: Management Discussion and Analysis and Complete Financial Statements in BRGAAP – 2018.

Learn more about **our securities broker** 



### **Insurance** operations

We offer an extensive range of life and personal accident, automotive, property, credit and travel insurance products. Our insurance business, which includes our 30% equity interest in *Porto Seguro*, consists of massified insurance products related to life, property and credit insurance lines.

These products are offered in synergy with retail channels – our branch network, partnerships with retailers, customers' credit cards, vehicle and property finance, personal and payroll loans – and the Wholesale Channel

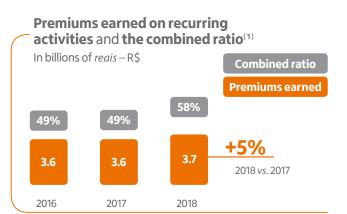
The recurring insurance activities consist of the offer of bancassurance products related to people, credit insurance and our equity interests in Porto Seguro and IRB. These products feature lower loss characteristics, lower volatility in results and lower capital utilization, making them strategic and relevant for diversifying the conglomerate's revenues. The other activities correspond to extended warranty, health and other products, which are no longer marketed, and to the portfolio in run-off.

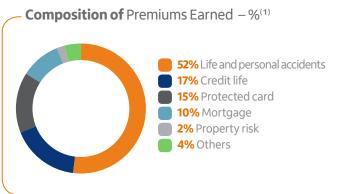
Our insurance products have been updated in terms of cover and assistance, adding greater value to our customers when they are alive. To expand our insurance product portfolio, we are concentrating our existing distribution channels while expanding the offer of insurance policies through an open platform on which we offer Itaú customers products of partner insurance companies.

We recently launched our open platform for selling insurance. The strategy is founded on offering products

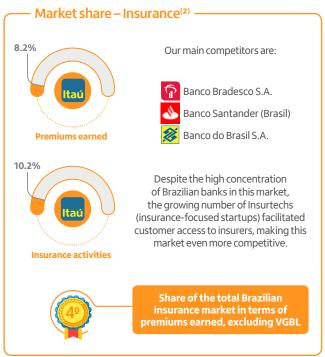
that supplement our portfolio. In this way we can satisfy the needs of our customers, both account holders and non-account holders, with products that we do not provide. We are constantly analyzing and evolving our distribution strategy and the portfolio offered.

In 2018, there was an increase in premiums earned and reduction of retained insurance claims. In addition, there was gain with the adequacy test of pension liabilities. These gains were more than offset by the increase in non-interest expenses and the lower remuneration of our assets, which impacted our managerial financial margin.





Sources: (1) Management Discussion and Analysis and Complete Financial Statements in BRGAAP – 2018: and (2) Susep.



Learn more about our insurance products

# Premium **bonds**

Premium bonds are products in which the customer pays once only, or in monthly installments, a fixed amount that will be returned to them at the end of a predetermined period. Premium bond holders are automatically eligible for periodic prize draws with significant cash prizes.

Itaú Capitalização (PIC) is a product developed for customers who like to compete for prizes and can be purchased through single or monthly payment, according to the profile and segment of each client.



Currently, our capitalization products are marketed through our branch network, ATMs and digital channels, and we are developing new technologies for channel diversification.

In line with the corporate principles of social responsibility, we have a partnership with Instituto Ayrton Senna, a not-for-profit organization dedicated to furthering the quality of public education in Brazil. Part of the revenue from the PIC, our savings bond, is channeled to educational products of the Instituto Ayrton Senna.

Prizes and current certificates(1)

# In millions of *reais* and millions of contracts Current certificates Prizes 13.4 13.7 +4% 2018 vs. 2017

47.0

2018

-1%

2018 vs. 2017

Source: (1) Management Discussion and Analysis and Complete Financial Statements in BRGAAP – 2018; and (2) FenaPrevi.

47.5

2017

2016

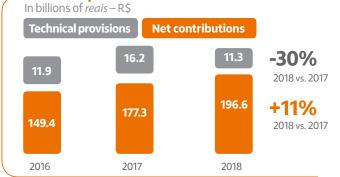
Learn more about our capitalization products

## **Private pension** programs

Private pension programs are one of the best options for financial and succession planning. We provide a solution to ensure you maintain your quality of life, supplementing the income from the State Social Security Program through long-term investments.

In the case of legal entities, we offer specialized consultancy and we are developing personalized solutions for each company, maintaining close relations with their human resources departments and embracing a communication strategy focused on financial education for our employees.

#### Technical provisions and net contributions(1)



#### Why invest

Retirement	ĤŶ
Future expenses	Ÿ:
Children's education	Mi
Tax planning	Ø
Financial return	\$
Ease of changing plans	
Succession planning	£ 3

#### - Differences between plans

#### **PGBL**

**Target audience:** clients submitting full income tax (IR) returns and who are registered with INSS.

How much to invest: maximum 12% of taxable gross income. Any value invested in PGBL in the year can be deducted from the taxable income in the IR return.

#### **VGBL**

Target audience: todos os perfis de clientes.

How much to invest: In the case of VGBL there is no limit of value on investment. So, to determine the amount required for each person, we do a mapping exercise and try to understand their objectives.

#### Market share – Pension plans<sup>(2)</sup>



Learn more about our private pension products







## Private Banking GRI 102-6 | GRI 102-4

With a complete global wealth management platform, we are market leaders in Brazil and one of the main participants in Latin America. Our multidisciplinary team, with the support of a team of investment consultants and product specialists, provides comprehensive financial services, understanding and responding to our customers' requirements at eight offices in Brazil and our offices located in Zurich, Miami, New York, Santiago, Asunción and Nassau.

Our customers have access to a full portfolio of products and services, from investment management, to wealth planning, including banking and credit solutions. In addition to our internally personalized products and services, we provide our customers access to an open architecture of alternative service providers.

We strive to add value to customers and shareholders by offering full, long-term hands-on advisory. We want to continue investing in international platforms to enhance our services and how we deal with our Brazilian customers, and to expand our Latin America operations. The aim is to increase the operating efficiency of our platform through continuous investment in IT platforms and to stay focused on risk management and regulatory aspects.

In December 2018, we reached 29.7% market share in terms of local private banking.

## Investment **Banking**

Our investment banking activities are handled by Itaú BBA and assist companies in raising funds through fixed income instruments and share issues on public and private capital markets and include consultancy services in mergers and acquisitions.

We advise businesses, equity funds and investors in structuring variable income products and in mergers and acquisitions. From the research phase through to execution, we believe in offering an extensive an extensive portfolio of investment banking services to Brazilian and other Latin American companies.

In the investment banking segment, our fixed income department operates as bookrunner or manager in issuances of debentures, promissory notes and securitization transactions.

We participated in 49 merger or acquisition operations in the South America in 2018. These transactions amounted to US\$25.7 billion, according to Dealogic.

The amount distributed in fixed income transactions in Brazil reached 28.9 billion *reais*, according to ANBIMA.

Equities transactions amounted to US\$6.1 billion consisting of transations in South America, according to Dealogic.



Learn more about **Itaú BBA** 



Sources: (1) Management Discussion and Analysis and Complete Financial Statements in BRGAAP – 2018; and (2) Itaú Unibanco Holding and ANBIMA.

## Asset Management

We manage our customers' funds through Itaú Asset Management. According to Fitch Ratings, the investment management quality rating of Itaú Asset Management is excellent, and the rating outlook remains stable.

The rating reflects the opinion of Fitch about the extremely Strong operating capability and the characteristics of the investment strategies offered. The rating considers the well-established and rigorous investment process, strong revenue flows and the high quality of the executive team. The assessment also reflects the strict risk and compliance policies, the heavy investment in technology and controls, a wideranging and diversified customer base and extensive distribution channels.

In turn, S&P Global Rating has allocated in AMP-1 (very strong) rating to Itaú Asset Management for its asset management practices – the highest level on its rating scale.





The ranking is based on the company's strong position as one of the largest private asset managers in Brazil and Latin America, its mix of products and customers, its highly experienced management team and its clear corporate strategy. The ranking also factors in its well-structured investment management processes, sound operational and risk management practices, strong fiduciary principles and consistent performance.





Learn more about **Kinea** 

## **Capital market** solutions

We offer local custody and fiduciary services, international custody and corporate solutions, operating in providing transfer and bookkeeping services to Brazilian companies issuing shares, corporate bonds, promissory notes and bank credit notes. We also operate as colateral agentes in project finance transactions, overdraft accounts and loan and financing agreements.

Our focus is on being an all-round services provider, with specialized professionals, founded on technology. Pension funds, insurance companies, asset managers, international institutional investors and issuers of credit and debt securities are our major clients in this business, accounting for approximately 2,850 clients in 21 countries.

Global Finance magazine indicated Itaú Securities Services as the best sub-custodian in Latin America. Nowadays, our platform allows us to offer our clients offshore funds. In addition, we have created the Blockchain Laboratory, the bank's largest initiative to develop business solutions using blockchain technology. In this laboratory we have already begun to develop, as an internal prototype, a specific solution for our share registration products.



#### **Corporate solutions**

In December 2018, we were lead managers in transfers and bookrunners for 198 companies listed on B3, which represents 58.6% of the companies listed on that stock exchange.

In addition, we were the second largest transfer agents with 375 offerings of debentures in the Brazilian market, representing 37.2% of this market.

Our main competitors in the stock market are Banco Bradesco and Banco do Brasil. Our main competitor in debentures is Banco Bradesco.



listed on the stock exchange of debentures in Brazill



Learn more about Itaú Securities

Sources: (1) Management Discussion and Analysis and Complete Financial Statements in BRGAAP – 2018; and (2) Itaú Unibanco Holding and ABECS.



# **Strategic** fronts

To accompany the challenges of our business and to remain market leader, we have elected six strategic priorities that will guide our actions in the years ahead.

#### The bank we want to build

How would you define Itaú Unibanco? A financial institution serving millions of customers? The largest private bank in the Southern Hemisphere? That's true. This information says a lot about who we are. But, for each person who has a relationship with us, it is something much more personal. Being in the wallet and on the cell phone of so many people is a huge privilege that goes way beyond financial services. Think about a microcredit customer. For them, we are the bank that believed in a dream. Think about the cyclist who uses our orange bicycles. They see us as the bank that is helping to solve the urban mobility problem in their city. We are also the bank of large companies, barbershops, the digital bank. And these are just some examples. If we stop to think about it, we are one company in many. With customers of every profile, with different people working to serve them and to afford them the best experiences.

It was while thinking about this new reality that we chose to be a bank 100% centered on the client, and we have thrown down the challenge to change leagues. What does this mean? Leaving the banking league and joining the league of the world's best companies for customer satisfaction, for it is precisely there that one finds the best experiences and the most satisfied clients. We know that to get there we have a long road ahead of us.

Looking at the challenges ahead, we have developed a strategic medium and long-term agenda for the business. There are 6 objectives we will face to become a benchmark company in client satisfaction and to increase the creation of value in a sustainable manner.

We have segmented the six strategic fronts into two groups: Transformation and Continuous Improvement. In the first group, we have included the fronts we believe require real transformation within the organization: client centricity, digital transformation and people management. In the second group, we have included the risk management, Internationalization and sustainable profitability fronts, topics widely disseminated within the organization, but which require efforts for their continuous improvement.

Permeating all these challenges are corporate governance and sustainability. The fundamental role of corporate governance is to guarantee the interests of the difference stakeholders with whom we relate, and it is key for achieving long-term sustainable growth. Sustainability, in turn, is fully integrated into the business, in both the operational and commercial aspects, making social and environmental issues a part of our daily lives. Its variables need to be incorporated and measured in each of our different processes, such as extending credit, investments, insurance activities, supplier contracts and funds management.

Each strategic front is managed internally by a group of multidisciplinary specialists. The strategic level consists of members of the Executive Committee, and its main responsibilities include being the final validator of the work undertaken by the team, and defining new targets related to its strategic front. The tactical level consists of officers, superintendents, managers and analysts, with responsibility for developing and delivering the work, while carrying out studies and research with the support of different areas of the bank.

We have already reaped some of the fruit, and we expect to add further value in the years ahead, both to society and our shareholders.

No longer comparing ourselves with the traditional competitors of the financial market, but to include ourselves in the select group of world's best companies in client satisfaction.

# Governance and sustainability

Permeate all efforts in our major strategic objectives







Minor and major aim in life can involve a bank. Our approach in listening to clients and offering the best experience defines whether that bank will be Itaú Unibanco.

The goal of the strategic front of client centricity is to transform the experience of our clients' experience. We have decided to change leagues, to stop watching only the banks and start taking inspiration from champion companies in satisfaction, regardless of the business segment.

We want to be the benchmark in satisfaction, transforming our culture so that the client is at the center of everything. Our actions, including digital transformation and efforts in relation to people management, are oriented towards our clients' satisfaction, a key metric for the entire organization.

In this respect, our Client Relations Policy states the guidelines and principles that our employees, correspondents and partners must abide by in all aspects of client relationships, allowing clients to freely and conscientiously make decisions about products that best serve their interests, needs and objectives, as well as to defend satisfaction and the perennial relationship with the client.

#### What has Itaú done to understand its clients?

The first step is to know what our client is looking for. To do this, we conduct opinion surveys and monitor client complaints through our relationship channels and bodies such as the Consumer Protection Agency (Procon) and the Central Bank (Bacen).

The results show that we are above the market average regarding customer satisfaction. However, we believe we can go even further and, therefore, we have adopted the Net Promoter Score (NPS), which consistently and constantly measures each of our customers' experience with Itaú, understanding their pains and needs.

NPS uses a simple methodology that evaluates an organization using a simple question: On a scale of 0 to 10, how likey are you to recommend Itaú to a friend? Customers who respond to the survey, whether detractors or promoters, may be approached by the sales team for a better understanding of the evaluation given.

We share what we learn internally, reflecting on what can be improved and on what we already do well and must continue.

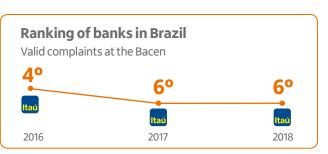
We consulted more than six million clients of all segments in 2018. The surveys are carried out mainly on our ATMs, via SMS and Internet Banking. In addition, we expanded our contact with customers on social networks and created a team dedicated to monitoring and responding to comments and questions on Instagram, YouTube and Facebook.

In this way, we are quick to deal with the simplest issues to be solved and to quickly reroute the more complex ones requiring other solutions. This granularity makes all the difference in the cultural change and transformation of our products and processes.

Another highlight is the Sales Quality Score (SQV), which relates the level of satisfaction of our customers to the commercial performance of our employees, i.e. whether the products or services marketed meet our customers' expectations and if the relationship in the sale was conducted ethically and transparently. The employee is rated throughout the year based on the history of complaints, and they may be asked to give feedback and to be given training and, as the last resort, even dismissed.



Learn more about our reputation on the *ReclameAQUI* site







Volume of incidentes (in thousands)

57,000 incidents

95%

resolved within 10 business days

# Main complaints about the Brazilian banking industry

- **1.** Insufficient information about products and services;
- 2. Irregularities involving credit cards; and
- **3.** Irregularities involving other products and services.

# What lessons has Itaú Unibanco learned from accompanying its customer's day, in both the traditional and the digital model?

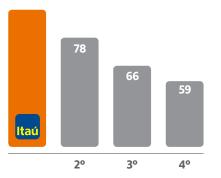
We have learned that it is increasingly necessary to provide the perfect solution for each type of customer how and when they need it. More resoluteness. Less bureaucracy. Digitalized transactions and operations, without wasting time. This is the bank the customer wants. This is what the figures tell us. Currently, over eleven million personal account holders have chosen digital tools (the Itaú app, the Itaú Light app, the Itaú app on their computer, Itaú on the Internet and bidirectional SMS) when doing transactions. And no one doubts that this trend has come to stay. After all, according

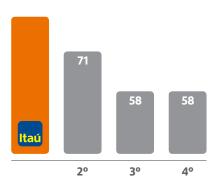
to the FEBRABAN Banking Technology Report, in 2017, 57% of all transactions in Brazil were via cell phones (the access champion) and internet banking.

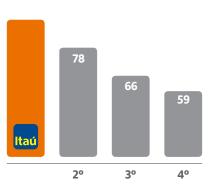
In line with this trend, the bank has launched tools to further automate the relationship. The two most recent examples are payment by proximity via Apple Pay and Samsung Pay which Itaucard launched in partnership with the brands, and cash transfers via messaging applications, like WhatsApp and Messenger using the Itaú Keyboard – available for Android and iOS. The idea for the functionality arose from the need for us to be present in the context within which the customer finds himself, such as chatting to a friend via text messaging.

## On a comparative basis, our NPS is higher than that of our main competitors(2)

# Itaú Branches Itaú Uniclass Itaú Personnalité Competitive NPS (base 100) Competitive NPS (base 100) Competitive NPS (base 100)







Source: (1) Sustainability Report 2018; and (2) Complete Financial Statements in IFRS – 2018.





We have improved our channel so as to have a quick, easy and secure solution. But, if you think that branches could become a thing of the past, it is good to know that these venues-just like today-will continue to be strategic for the banking industry. Research shows that most customers consider human contact very important. For example, in Denmark, 90% of customers access banks via the internet (twice the figure for Brazil) and, even so, branches continue to play a meaningful role in the relationship with them. In practice, instead of going to the bank to do transactions, people will use the branches in a more consultative way, looking for customized solutions that will help them plan their financial affairs and realize their dreams. That is why we are rethinking the entire customer experience at these locations.





App Light

**App Itaucard** 

**# 4.4 \$ 3.6** 

1st bank with an app for reduced-memory

smartphones

4.5

App Rede

Control of card receivables using a cell phone





**App Open an Account** 

**App Itaú Empresas** 

1<sup>st</sup> bank to open accounts

**4.6 4.8** 

via cell phones

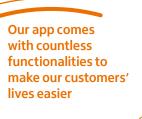


Itaú

In April 2018, we launched our digital portfolios and became early movers in Brazil with **Apple Pay, and later Samsung** Pay. By December 2018 we had reached more than one million customers and a market share of 65% of the volume of purchases using eWallets.

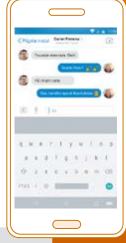


samsung pay





**Transactions without** leaving the messaging app





Source: Complete Financial Statements in IFRS





understand

our customer.

ł

Customer is priority in decision making.

The customer's

problem is my

problem.

Captivating the customer is everyone's responsibility.

We innovate

and test with the

customer and

quicky learn from

our mistakes and

successes.

Clear, simple and transparent communication with the customer. 7

We recognize and reward customer satisfaction.

How does Itaú engage its employees to transform the customers' experiences?

We periodically strengthen the culture of client centricity through in-house campaigns and chats about opportunities for improving customer service. We have adopted seven guiding principles on how we approach transforming our customers' experiences. In addition, our compensation program is based on customer satisfaction metrics such as NPS.

We have expanded the ways in which we relate to our customers. We have extended business hours at the bricks-and-mortar and digital branches, and we have equipped our managers with smartphones, tablets and video conference technologies for providing customers with the same standard of service of our branches.

With the payment experience of small businesses and micro entrepreneurs in mind, we launched a family of small bank card machines called Pop Credicard, which stand out from the competition for the short payment period and lower fees.

For our customers' convenience we have created an open insurance platform which, in addition to our insurance products, offers a more complete portfolio of partner companies that includes automotive, health, life, cell phone protection, dental, installment/guarantee, savings bond, card protection, assistance and travel insurance products.

The open platform is in line with the inauguration of our investment platform, Investimento 360. Available to Itaú Personnalité customers, it is a complete advisory service that analyzes selects and recommends the best investment products on the market, whether those of Itaú Unibanco or other institutions, with total transparency.

We have also zeroed out the carrying fees on pension programs and the custody fees on Tesouro Direto to encourage our customers to invest. We have disclosed the behavioral finance program among our employees and have created a credit tutor, an online tool that suggests credit transactions most appropriate to the customer's

profile. To assist our customers at times of financial stress, we offer personal loans with the first installment in up to 90 days.

To enhance our customers' digital experience, we are focusing on convenience, agility and security when offering products and services. The Itaú Teclado (keyboard), for example, is an innovation that facilitates bank transfers using messaging apps. The PDF reader scans the bar code on a payment slip and automatically fills out the fields of our application to close the transaction. Digital wallets (eWallets) allow customers to make payments using their cell phone by proximity, eliminating the use of physical cards. The virtual card combines two important concepts for a good purchase experience: it protects the customers' data and makes it easy to locate the purchase, also without the need for the physical card.

# What experiences does Itaú Unibanco intend to offer its customers in order to become a benchmark in satisfaction?

With an in-depth knowledge of the customer, and by expanding our relationship, we intend to offer experiences that captivate the customer. In a few years' time, we expect to afford moments so surprising that we will be comparable to Starbucks or Apple, for example, on the question of experience.

More than just providing services, people are looking for something more, something purposeful. Thus, we will continue to focus on our mission of encouraging people's power of transformation. We are working to realize dreams while driving development and arousing the desire to do more and better. To encourage our customers, employees and society to transform lives.



# **Digital** transformation GRI 103-2 Digital Transformation

# The global dynamic is changing exponentially. Engagements are increasingly quicker and people more demanding and connected.

Major companies in various sectors around the world have embarked on a voyage of digital transformation to become more agile and more client-centered. After all, people's routines are increasingly occupied by those companies with the ability to develop important solutions with the speed the customer needs.

Our challenge is to accelerate our digital transformation process by continually increasing the productivity of our information technology area, while fostering a digital mentality throughout the entire bank, so as to become more efficient and to improve the user's experience and client satisfaction. Technology currently represents the spinal column of the evolution of Itaú Unibanco.

The bank is enhancing its strategy of being to the forefront in the search for innovative solutions for resolving actual problems by adopting technologies. Our focus is to facilitate people's lives, offering greater convenience, agility and security with the products and services we offer.

The main pillars of digital transformation are: digital experience, technology platform, Data & Analytics and working model.

# What has Itaú done to achieve the speed of innovation shown by Fintechs and thereby enhance its customers' digital experience?

We have adopted a new work method to increase productivity and encourage innovation. More than 6,000 employees now work in multidisciplinary teams, the Delivery Communities, a model in tune with the Lean and Agile principles and, therefore, more oriented to clients, delivery of value in short cycles, experimentation and collaboration. Besides the way of working, we have also continuously evolved our platforms to ensure that our systems are stable and to allow the constant adoption of new technologies to accelerate the development cycle of new solutions.

Our objective is to captivate the customer through differentiated digital experiences that are constantly evolving, both in the mobile channel and on the internet.

We have made significant progress in the mobile channel, implementing more than 42 new functionalities, affording customers an even more intuitive and all-round experience. One of these functionalities is Minhas Finanças (My Finances), a service that helps customers to understand their financial behavior and to monitor the transactions in their checking account by category of expenditure, for example, meals, services, transport etc. Minhas Finanças displays the information automatically, organized without the client needing to input them manually or having to share passwords and data

about their financial affairs with third parties, providing greater convenience and security. New investment experiences, in turn, are increasing offers via cell phones, and we have enhanced the client's experience. In just one month, the new shelf recorded more than half-million accesses.

Another innovation is Teclado Itaú, a tool that allows users to transfer money via their cell phones without having to exit the application they are using – like WhatsApp and other chat apps. An innovative approach to making simple, convenient and secure transfers.

We have also transformed how our clients deal with money. We make available e-Wallets that allow them to move transactions to their cell phones and make payments by proximity, eliminating the use of physical cards. We are operating in partnership with major technology partners like Apple Pay and Samsung Pay, and in 2019, we will also operate via Paypal and Google Pay. Apple Pay is one of Brazil's largest e-Wallets, while Samsung Pay is showing one of the highest average transactions per user.

The Itaú Abre Conta (Open an Account) app allows 100% digital opening of checking accounts, quickly and securely, without having to go to a physical branch.



# What are Itaú's main investments with regard to new technology platforms?

We ensure our teams and platforms are in constant evolution, and we foster transformations using new technologies. Our investments in technology have risen by 38% in the last four years to ensure the continuous evolution of our platform and the stability of our systems.

One of the technologies where we have intensified our investments is the cloud. Much more than just infrastructure, it is a way of storing and processing data, essential for modernizing our platforms and maintaining them in constant evolution.

A significant part of the financial benefit generated by technology projects refers to solutions that used the cloud in at least one of their applications.

We have also invested in Application Programming Interface (API) technology that enables the creation of re-useable applications for providing services and products through our digital channels and for partners. We have already achieved a peak of 256 million hits on our APIs in a single day.

We are accompanying the maturity process of new technologies like blockchain. This technology allows individuals and legal entities to upload data to a shared and authenticated computer network. This data is then replicated for all participants using a mechanism known as shared ledger. All data registered on the network are encrypted to ensure the authenticity of the information and that the

content was originated by an authorized participant. In addition, the existence of the shared data base prevents conflicts that could arise when various players participate in the same transaction.

We participate in the debates about blockchain at FEBRABAN and we are members of international syndicates like R3 and the Enterprise Ethereum. In addition, we have already had around ten experiments in using it, among which we highlight below.

The Collateral Management Project is the blockchain Project in the Brazilian banking market to be used with actual bank operations, providing a digital experience in a still very analog transaction flow: margin calls with other financial institutions. This service is intended for business customers and involve margin calls on collateral for over-the-counter derivatives.

Another experience was the US\$100 million from Standard Chartered and Wells Fargo under a Club Loan, a similar format to a "syndicated loan". By the same token, Itaú and Standard Chartered have successfully concluded the development and proof of concept (PoC) for the first blockchain platform in Latin America for transaction in this format.

Our investments in technology have been channeled not only to modernizing our platform (which affords us greater efficiency), but also to developing solutions and services that transform our client's experience. 100% client centricity is our mission as a bank. But captivating them is our

ambition. To that end, we have increasingly invested in our data strategy. In the short term, we want to provide experiences so surprising for them to the point where we will be compared to companies that are benchmarks when it comes to experience, like Amazon, Apple and Google, for example.

But, we know that there is no other way of joining the league of the world's leading companies in client satisfaction except through technology. And that is why one of our strategies is heavy investment in refining data use. They are the bank's new capital and, if dealt with, they provide an opportunity for offering a new version of Itaú Unibanco to each client, thereby raising their experience to a new level.

With this in mind, we want to make intensive use of intelligent algorithms to automate decisions, gain in efficiency and develop personalized services. Within this scenario, the different areas of the bank will share a data ecosystem, tools and development techniques and, therefore, the analytics operation will take root across the entire business.

Currently, our team specializing in data uses technologies like artificial intelligence and machine learning to provide our clients with better experiences and gains in operational efficiency.

The purpose of our Center of Excellence in Digital Analytics is to capture and democratize the use of digital data throughout the bank, accelerating the dissemination of a Data Driven culture in managing the operations and in contact with clients.



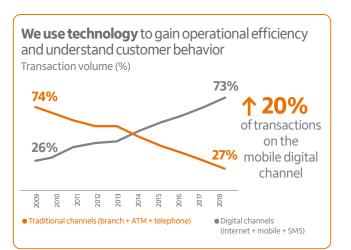
We support the Data Science Center of the University of São Paulo (USP), a venue intended for students and teachers. The center aims to promote research in the data architecture sector, analytics and artificial intelligence, in addition to promoting the exchange of information between the private sector and the university.

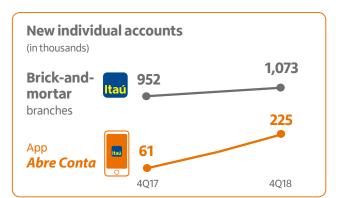
In the quest to be at the forefront of innovation in the financial services area, we are founders of FinTech@CSAIL and the only member from Latin America in this financial technology studies center of the Massachusetts Institute of Technology (MIT).

# What is the strategy of Itaú Unibanco regarding migration from brick-and-mortar branches to the digital bank

We want to offer our clients the best service and experience, always taking into account their profile and choices.

The digital branch model has been implemented and has advanced rapidly in attending to a considerable portion of clients who were more digitalized and demanded a differentiated service. The model is a winner and is well established, and the expansion will now proceed as the profile of our client base and their needs evolves.





# **Share of digital transactions** in the Retail Banking product



# **Share of the transactions closed** on digital channels

	2016	2018
Credit	16%	19%
Investment	31%	41%
Payments	61%	76%

Note: Digital channel share of transaction volume (in R\$) of the Retail Bank.



It is our role to value people as they are, their experiences, characteristics and mind models, eliminating barriers so that every employee can develop their potential, allowing each of us to achieve their best version and dedicating ourselves day after day to serving and enchanting our customers.

We believe that meritocracy is the way forward to more transparent and fair management, recognizing performances that stand out in a differentiated manner. This exercise consists of feedback, the offer of the appropriate development opportunities for each employee's needs, as well as the role of the employees themselves in the continuous search for better opportunities.

To ensure that our people management reflects the new challenges, we have adopted a program that values diversity and respect for people.

Our employees undergo an annual performance appraisal through the Meritocracy Cycle where the focus is on driving increasingly better results by aligning targets with our challenges and values.

In the performance assessment matrix, the X Axis evaluates the employee's performance based on the results attained in every target agreed. The target agreement and evaluation process is divided into four phases: alignment with the organization's objectives, agreeing targets, evaluating results and feedbacks. The Y Axis evaluates whether the employee's behavior abides by our values (Our Way) based on the results of appraisal surveys undertaken by managers, peers and partners.



#### **GENDER**

We are an equal opportunity company where men and women enjoy equal opportunities in terms of development, growth within the bank and compensation.



#### **RELIGION**

A secure and respectful environment, irrespective of whether someone is a believer or not.



#### **AGE**

Breaking down restrictive paradigms and fostering actions intended for employees aged 55 and above, seeking to increasingly improve their experiences here in the bank.



#### **PERSONS WITH DISABILITIES**

Fostering accessibility, training and equality of opportunity.



#### **RACE**

We work to ensure that racial representativeness is a reality. The aim is to enhance our attractiveness, increase the number of hires and provide all employees with the same opportunities.



#### LGBT+

A secure and respectful environment, irrespective of sexual orientation and gender identity.



#### How important is meritocracy in the people management process? GRI 102-36

Our Fixed Compensation Policy recognizes a professional's competence and seniority, and there may be additional payments according to our Promotion and Merit policy and collective bargaining agreements. Variable compensation recognizes individual performance levels, the financial results obtained by our business and its sustainability in the short, medium and long terms.

Our employees' variable compensation consists of Profit Sharing, Results Sharing (PR) and Supplementary Results Sharing. They all depend on the performance of the business and each employee's individual performance, quaranteeing a minimum amount according to the collective bargaining agreement with the respective union.

In addition, our employees are also eligible for High Performance Compensation (PRAD), Differentiated Performance (PD) and the Partners' Programs. The PRAD consists of supplementary results sharing for para 30% of the employees with the best appraisals, based on meritocratic criteria.

The Long-term Compensation Program, in turn, applies to employees in leadership or similar positions, by means of an individual appraisal based on results and behavior, involving our preferred shares (ITUB4). The Partners' Program recognizes and promotes professionals who make a difference and who are to the fore in building a bank oriented to the future, aligned with our vision and values. Employees and managers elected as partners or

associates can invest part of their share of profit or results in purchasing our shares, also receiving a consideration in shares.

In addition to the benefits enshrined in the collective bargaining agreement, we also offer other benefits that can vary according to the category of the employees or the regulations applicable to each jurisdiction. The main benefits in this category are the health and dental plans, private pension plans, group life insurance, check-ups, parking, psychosocial services and personalized advisory in the use of financial products and services.

#### What is Itaú's strategy for increasing employee retention?

To further increase employee retention we offer the Connecting Opportunities Program that supports and provides guidance for employees in the search for new challenges and work opportunities within the bank.

All our employees are covered by collective bargaining agreements and arrangements. The key benefits stipulated in these agreements in the case of employees working in Brazil are: meal tickets (VR), shopping basket tickets (VA), daycare or babysitter allowance and travel vouchers. GRI 102-41



**Turnover** 

10.0%

9.1% in 2017 10.4% in 2016 3.1%

Voluntary

6.9%

**Involuntary** 

15,446 Hires

14,145 in 2017 9.889 in 2016 10,667 **Dismissals** 

9,454 in 2017 10.570 in 2016 1.4

Ratio of hires/ dismissalss

**Health and** well-being 2018



2.000

Dietary appointments



20,000

**Employees** enrolled in the expectant mother sports club



2,600 Adhesions to the

support policy

Adhesions to paternity leave



61,000

Anti-flu iabs



**Absenteeism** 1.11 1.2 in 2017

1.3 in 2016

Source: 2018 Sustainability Report.



We also measure the degree of our employees' satisfaction and to what extent they recommend and defend Itaú Unibanco. Therefore, in the same way as we have implemented a NPS for customers, we now monitor the e-NPS (Employee Net Promoter Score).

We believe in the ability of our employees, for which reason we invest in their professional and personal development. We make available countless technical and behavioral training programs, qualification initiatives aligned with the stage of each employee's career and customized to reflect their Individual Development Plan, including live and digital solutions using further education online platforms, language courses, graduate and masters programs, seminars and congresses and short-duration course in Brazil and overseas.

We train our employees to become multiplier agents within and outside the organization on a wide range of issues referring to the business or people's lives, such as financial education, for example. Courses and financial advisory allow us to reflect on the relation between consumption, life's objectives and financial equilibrium, so that our employees, their families and friends can enjoy a healthier relationship with money.





Investment in Personnel<sup>(1)</sup>

R\$24.8 billion

R\$23.3 in 2017 R\$22.4 in 2016



**Training** courses

Approximately 24 hours

per employee(2)

2018(1) ---

R\$10.2 billion Compensation

Profit sharing

R\$4.4 billion

R\$3.7 billion Benefits

R\$3.0 billion Charges

> R\$3.4 billion Other

92.9%

Employee compliance rate 6,700

Scholarship awarded to employees

1,441,000

41%

18%

15%

**12%** 

14%

In-person and digital training sessions

Pesquisa Pulso<sup>(1)</sup> (Speak Frankly survey)

87% (81% of adhesion)

85% (79%) in 2017 84% (79%) in 2016

Adherence to the Code of Ethics(2)

55 dismissals 10 warnings 118 notifications

1.871 Manifestations 13% Intimatidons

1,471 in 2017 1,341 in 2016 Ombudsman<sup>(2)</sup>

33% Disrespect 31% Non-compliance with rules

10% Lack of managements effectiveness

14% Other

Home office: around **2,600** emplovees no piloto up to two times a week.

Flexible working day: more than **70,000** thousand employees in the compensation system of hours.

Source: 2018 Sustainability Report

# Stock-based profit sharing



The program consists of granting preferred shares (ITUB4) or equivalent instruments



Subject to the limits established by the Compensation Committee

# Eligible audience 10% of the best performance Managers Eligible audience 30% of the best performance Superintendents

# Composition of the annual compensation of members of the Board of Directors, Board of Officers, Fiscal Council and Audit Committee

028

## Monthly fixed compensation

Aggregate amount of fees in cash approved at the Annual General Stockholders' Meeting

# Annual fixed compensation

Stock-based compensation approved at the Annual General Stockholders' Meeting

# Annual variable compensation

Stock-based compensation approved only in the event of a resolution of the Compensation Committee, subject to the guidelines of CMN Resolution No. 3,921 and limited to the extent determined by the Annual General Stockholders' Meeting

## Monthly fixed compensation

Fees in cash approved at the Annual General Stockholders' Meeting



## Monthly fixed compensation

Aggregate amount of fees in cash approved at the Annual General Stockholders' Meeting

#### Benefit plan

Composed of medical and dental care plans, check-up, private pension plan, parking lot and life insurance

Board of Officers

# Annual variable compensation

Statutory profit, sharing and fees (in cash and in shares) approved by the Compensation Committee and Limited to the annual amount approved at the Annual General Stockholders' Meeting

# Audit Committee

# Monthly fixed compensation

Fees in cash determined by the Board of Directors

- In the event that a member of the Board of Directors is also part of the Board of Officers of Itaú Unibanco or its subsidiaries, the compensation will be in line with the compensation model of the Board of Officers. Management members who are also part of statutory or non-statutory committees or of our subsidiaries or affiliates are compensated according to their duties in the executive bodies or areas in which they work. As a rule, they do not receive a specific compensation for belonging to these committees. A non-management member of the Compensation Committee is compensated for his/her duties executed in the referred Committee.
- 2 Maximum compensation amounts are defined based on the limits imposed by Article 152 of the Brazilian Corporate Law.
- (3) Members of the Board of Directors and Audit Committee only receive benefits if they have previously been officers of the Company.
- 6 For those members of the Audit Committee who are also part of the Board of Directors, the compensation policy of the Board of Directors is applied.



Risk management lies at the heart of our business and is a responsibility of every employee.

What is the importance of risk appetite and the risk culture for efficient management of the business?

At Itaú Unibanco, risk appetite defines the type and level of risk we consider acceptable, while our risk culture underpins the approaches required for managing them.

For us, sustainability and customer satisfaction is only doing business that is good for the client and for the bank. That is why our risk culture transcends policies, procedures and processes. It bolsters the individual and collective responsibility of all employees. We carefully evaluate the risk-return ratio, properly pricing the risk. Our business, products and services are diversified, because we have a low appetite for volatility. We strive for operational excellence. We want to be an agile bank with a robust and stable infrastructure. We foster a proper institutional environment that is ethical and respects regulations, because we staunchly defend our reputation.

How does the Itaú approach to risk function? In 2018, through the Strategic Priority Management of Risk Management Department, we expanded our approach to risks and classified them as traditional and strategic. It's based on
Board of Directors Statement

Guided by the Principles of Risk Management

And monitored by metrics inserted in the day-to-day of business management

We are a universal bank, operating predominantly in Latin America. Supported by our risk culture, we operate based on rigorous ethical and regulatory compliance standards, seeking high and growing results, with low volatility, by means of the long-lasting relationship with clients, correctly pricing risks, well-distributed fund-raising and proper use of capital.

- Sustainability and customer satisfaction;
- Ethics and respect for regulation;
- Price for risk;
- Diversification:
- Operational excellence; and

• Risk culture.

Understanding, identifying, measuring, managing and mitigating risks are practices essential to our activities.

#### Capitalization

- Capital ratios in normal and stress situations; and
- Debt issuance ratings.

#### Liquidity

• Short and mid-term liquidity indicators.

#### **Composition of results**

- Largest credit risk;
- Largest exposures and by rating brackets;
- Concentration by sectors, countries; and segments; and
- Concentration of market risk.

#### Operational risk

- Operational losses events; and
- Information technology.

#### Reputation

- Suitability indicators;
- Media exposure;
- Customer complaint tracking; and
- Regulatory compliance.

Principles of risk culture Itaú Unibanco

We act on risks





We rely on a consolidated governance structure to manage traditional risks – credit, market, liquidity, operating, compliance and information security risk. Our objective is to continue improving how we manage traditional risks, in addition to extending the coverage to enable us to manage more strategic risks that could threaten our future profitability – business, regulatory, technology and personnel risk.

Strategic risks include risks derived from new participants entering the Market, or a more proactive attitude of our regulators, and they are as relevant to us as the traditional credit or market risks.

We are striving for robust risk management processes that pervade the entire organization and which are the basis for strategic decisions to ensure the sustainability of our business.

# What is the importance of governance and the organizational structure for risk management at Itaú?

Our organizational risk management structure complies with the regulations in Brazil and overseas, and is in line with best market practices. We rely on a dedicated structure for coordinating and consolidating information and related processes, all of which are subject to verification by independent validation, internal control and audit areas. The following committees are part of our risks and capital management governance.

#### **Risk & Capital Management Committee (CGRC)**

supports our Board of Directors in performing its duties related to our risk and capital management by meeting, at least, four times annually, and submitting reports and recommendations to assist the Board of Directors in its decision-making with respect to: decisions regarding our risk appetite, in terms of capital, liquidity, results, operational risk and reputation, ensuring these aspects are in alignment with our strategy, and including acceptable capital and liquidity levels and types of risks to which we may be exposed, as well as overall limits for each type of risk, tolerance for volatility of results and risk concentration, and general guidelines about tolerance for risks that may impact our brand (e.g., brand risk). Establishing our minimum expected return on capital as a whole and for our lines of business, as well as monitoring performance.

CGRC supervisions of our risk management and control activities in order to ensure their suitability to the risk levels assumed and to the complexity of the operations as well as compliance with regulatory requirements Review and approval of policies and strategies for capital management, to establish mechanisms and procedures aimed at keeping

#### Credit Risk

Risk of losses associated with failure by a borrower, issuer or counterparty to fulfill their respective financial obligations as defined in the contracts.

#### **Market Risk and Liquidity**

Risk of losses resulting from fluctuations in market values of positions held by the institution.

#### **Operational Risk**

Risk of losses arising from the failure, deficiency or inadequacy of internal processes, people and systems, or from external events.

#### Compliance Risk

Risk of legal or regulatory sanctions, financial losses or damage to our reputation arising from non-compliance with applicable laws and regulations.

#### **Information Security Risk**

Risk of losses or damage arising from theft, fraud, leakage, compromise or improper use of proprietary or clients' information.





capital consistent with the risks we incur, and with the definition of our expected minimum return on capital as a whole and our business lines, such as performance monitoring.

Additionally, o CGRC is also responsible for the supervision of our incentive structures, including compensation, aimed at ensuring its alignment with risk control and value creation goals and fostering the improvement in our risk culture.

Market Risk and Liquidity Committee (CSRML) meets on a monthly basis and is responsible for setting guidelines and governance for investments and market and liquidity risks regarding our consolidated positions and business lines.

The **Superior Operational Risk Committee (CSRO)** meets on a bimonthly basis and is responsible for understanding the risks of our processes and business, defining guidelines for operational risks management and assessing the results achieved by our Internal Controls and Compliance System. The CSRO is our main decision-making committee for all operational risk management matters. It is responsible for defining our operational risk framework and structure and related policies for identification, measurement, assessment, reporting and monitoring of operational risk.

**Superior Credit Committee (CSC)** meets on a weekly basis and is responsible for analyzing and deciding on credit proposals that are beyond the authority of the credit committees that report to the CSC. It is also responsible for analyzing decisions which may have not been taken due to a lack of consensus at the committee immediately subordinate to it or cases where, due to the relevance or characteristics of

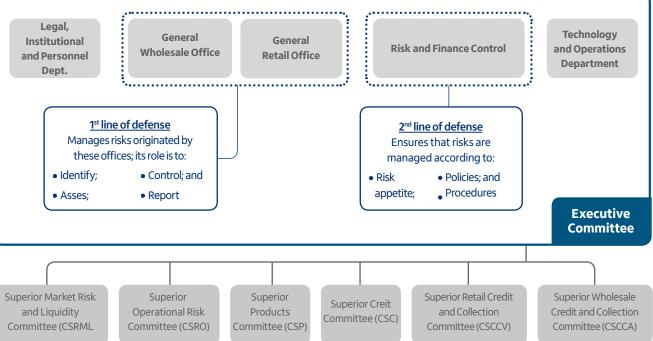
the topic or other features, such Credit Committees decide to submit to the CSC's review.

**Superior Retail Credit and Collection Committee (CSCCV)** meets on a monthly basis and is responsible for approving credit policies and assessing the performance

of retail credit and collection portfolios and strategies.

Superior Wholesale Credit and Collection Committee (CSCCA) meets on a monthly basis and is responsible for approving credit policies and assessing the performance of Wholesale Credit and Collection portfolios and strategies.

**Board of** Directors Internal Audit **Risk and Capital** Audit Management Committee 3rd line of defense Committee Independent review of the activities developed by the institution **Technology Risk and Finance Control** and Operations Department 2<sup>nd</sup> line of defense





**Superior Products Committee (CSP)** meets on a weekly basis and is responsible for evaluating products, operations, services and processes that are beyond the authority of our Products Committees that report to it or that involve image risk to us.

Additionally, we have sub-committees, chaired by our chief risk officer and CFO, which are also responsible for risk and capital management. Any such sub-committee may report directly to the Risk and Capital Management Committee or to the sub-committees previously mentioned.

To support this structure, we have the Risks & Finance Control and Management Area, structured with specialized departments and subordinated to our chief risk officer and CFO, intending to independently and in a centralized manner to ensure that the institution's risks and capital are managed in accordance with established policies and procedures.

The continuous improvement of control processes allow us to better understand the particularities of each country and region in which we do business, and quickly adapt to changes in the different regulatory, social and economic market environments.

Risk management at our foreign subsidiaries is undertaken by teams dedicated to control and monitor risks, with direct communication channels that allow the information to flow at a timely manner as well as the alignment in the whole group.

Finally, promoting the risk culture in Brazil and abroad strengthens the individual and collective responsibility of all of our employees, so they can do the right thing, at the right time and in the right way, respecting the ethical and sustainable way of doing business.

How do we track and monitor our exposure to social and environmental risks, particularly risks derived from or associated with climate change? We consider social and environmental risk as the risk of potential losses due to exposure to social and environmental events arising from the performance of our activities. Therefore, among other actions, we have assumed and incorporated into our internal processes a number of national and international voluntary commitments and pacts aimed at integrating social, environmental and governance aspects into our business. The main ones are the Principles for Responsible Investment (PRI), the Charter for Human Rights – Ethos, the Equator Principles (EP), the Global Impact, the Carbon Disclosure Project (CDP), the Brazilian GHG Protocol Program, the National Pact for Eradicating Slave Labor (Pacto Nacional para Erradicação do Trabalho Escravo), among others.

Financial institutions are subject to specific guidelines about the management of social and environmental risks, due to CMN Resolution No. 4,327, as of April 25, 2014, that provided for the implementation by financial institutions of social and environmental responsibility policies containing certain minimum requirements. These rules also provide an obligation for registering environmental

and social losses, analysis of the environmental risk in the approval of products and services, among other dispositions. Brazilian Central Bank is responsible for the inspection of the corresponding filings and information and for the implementation of the provisions of such regulation.

We also recognize that climate change is one of the major challenges for us, because climate events may affect our activities in our administrative buildings, network of branches and data processing centers and are taken into consideration for all geographical regions in which we operate in Brazil.

In 2018, a multidisciplinary working group involving the areas of Sustainability, Social-environmental Risk, Finances, Asset Management and Investor Relations, was created to develop the Climate Finance agenda. We participate in the main national and international forums and initiatives, in order to anticipate tendencies and help us quide the way we do business in the short and long terms. As an example, we participated in the Task Force on Climate Financial Disclosure (TCFD) working group of the United Nations Environment Programme Finance (UNEP FI). In this group, we and another 15 financial institutions gathered efforts to develop indicators and tools to strengthen the assessment and disclosure of risks and opportunities related to climate change in such institutions. Besides that, we are also implementing the recommendations made by the Financial Stability Board.



Additionally, as a result of the notice published for our Emissions Offsetting Commitment to Climate Program, in partnership with Natura and the Brazilian Ekos Institute, we received more than 100 projects, from 25 Brazilian states, totaling a volume of more than five million tCO₂. Seven projects were selected to offset the emissions from Itaú and Natura, which had the goal of compensating 500 thousand tCO₂. We have selected three projects totaling 86,000 tCO₂e to offset our emissions from 2016 and 2017.

#### Governance

#### GRI 102-18

The Board of Directors guides our Sustainability and Social and Environmental Responsibility policy for risks and opportunities related to climate.

Sustainability Governance addresses risk management and the identification of opportunities related to the climate changes agenda.

The Superior Committee on Ethics and Sustainability resolves on the institution's actions *vis-à-vis* the agenda of climate changes.

The theme is also discusses in the Sustainability
Committee, the main
Sustainability forum
of the organization.

#### Strategy

#### Participation in multisector discussion groups, such as CEBDS, UNEP FI, FEBRABAN and FGV.

A study on the impact of climate changes in our Loan portfolio for the corporation segment in the medium and longterm scenario has been conducted.

A study on Emission financed based on the Portfolio Carbon Initiative guidelines has been conducted. Participation in the UNEP FI workgroup for implementation of TCFD recommendations considered different climate scenarios.

#### **Risk management**

#### GRI 102-11

Climate variables are considered in the analysis of the Social and Environmental Risk for the corporate segment and analysis of financing of big projects.

Itaú Asset Management considers Climate Changes themes in its ESG integration methodology in the analysis of investments.

We consider climate changes in the pricing of our insurance products (corporate).

#### **Goals and metrics**

Development of indicators and tools to strengthen the assessment and disclosure of risks and opportunities related to the climate change by means of workgroup of UNEP FI about TCFD recommendations.

A study for identification of business risks and opportunities vis-à-vis changed in the climate global standards, with projections for ten years, has been conducted.

Launch of Asset calculator to compare emissions of our portfolios with benchmarks.

Learn more **our actions related to climate change** 





#### **Capital management**

Our Board of Directors is the main body responsible for our capital management, and for approving our capital management policies and guidelines regarding our capitalization level.

Through our ICAAP, we assess the adequacy of our capital to face the incurred risks. For ICAAP, capital is composed by regulatory capital for credit, market and operational risks, and by the necessary capital to face other risks.

We have adopted a forward-looking approach to the management of our capital. We identify the risks to which we are exposed and their materiality. We assess the need for capital to cover material risks. We have developed methodologies for quantifying additional capital and internal capital adequacy assessment, as well as contingency plans and capital adequacy reports.

We have adopted all minimum capital requirements required by our regulators. We follow the set of resolutions and circulars issued by the Central Bank, in line with the international guidelines of Basel III.

Our minimum capital requirements are expressed as ratios of the capital available, as evidenced by Reference Equity (PR), or Total Capital, composed of Tier I (comprising principal and additional tier I capital) and Tier II, and the risk-weighted assets, or RWA (determined as the sum of the risk-weighted asset amounts for credit, market and operational risks).

In addition to the minimum requirements, the Brazilian Central Bank rules establish additional Capital Buffers that, together with the aforementioned requirements, increase the capital requirement over time.

What is the capital structure of Itaú and how does the bank manage its capital indicators? Our capital is composed of the Reference Equity, used to verify compliance with operational limits imposed by the Brazilian Central Bank. The Reference Equity in turn is the sum of the Common Equity Tier I, Additional Tier I and Tier II capitals.

The Common Equity Tier I capital is the sum of common equity capital and profit reserves, deducted from prudential adjustments. Additional

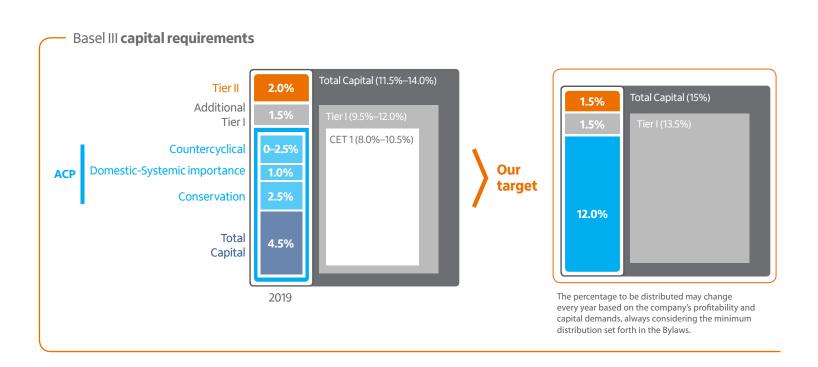
Tier I is composed of hybrid debt and equity instruments that meet eligibility requirements. The sum of the Common Equity Tier I and the Additional Tier I results in the Tier I Capital.

Tier II capital is composed of subordinated debt instruments with defined maturity that meet the eligibility requirements. The sum of Tier I Capital and Tier II Capital make up Total Capital.

The percentage of net income to be distributed may change every year based on the company's profitability and capital demands, always considering the minimum distribution set forth in the Bylaws.

In order to ensure our capital soundness and availability to support business growth, we maintain capital levels above the minimum requirements. Our Total Capital, Tier 1 Capital and Common Equity Tier 1 Capital ratios are calculated on a consolidated basis, applied to institutions included in our Prudential Conglomerate.





Total payout simulation to keep Tier I capital<sup>(1)</sup> at 13.5, under different return and growth scenarios.

		ROE					
		15.0%	17.5%	20.0%	22.5%	25.0%	
RWA growth	5.0%	65 – 70%	70 – 75%	75 – 80%	80-85%	85-90%	
	10.0%	40 – 45%	45-50%	50-55%	55-60%	60-65%	
	15.0%	35%	35%	35 – 40%	40 – 45%	45 – 50%	

<sup>(1)</sup> Considering Basel III full application.



We want to reproduce our commercial, technology, people and risk management model in the countries where we operate and to pursue profitability levels close to those of Brazil, in addition to searching for synergies and lessons that the exchange of culture and operations makes possible.

In recent years we have intensified our internationalization process in Latin America, not only to have access to new markets and increase the scale of our business, but also thinking about our clients in order to be closer to them and afford them better experiences.

In the Northern hemisphere, our service units are seeking to expand the product offer, optimize and simplify structures and processes and innovate our technology platform. In Latin America, we have adopted the universal banking model that predominates in the Southern Cone.

However, advancing with the internationalization process does not necessarily mean expanding our business into new countries, but rather to achieve in the countries where we operate the same quality of management and level of results we have in Brazil.

What does Itaú Unibanco expect from its operations in Latin America in the years ahead?

Our vision is to be the leading bank in Latin America and the best digital bank in the countries where we operate. We want to be the best local bank for our clients, with the best regional solutions. We are striving for higher-than-market growth with continued improvement in efficiency. Our objective is to have the best brand experience and client satisfaction to attract, develop and retain the best talent, building high-performance teams in the markets where we are present.

We are striving to disseminate our values and culture to every country where we are present. In this way we will influence markets, while generating shared value and a positive impact.

Our ambition is to be the digital bank in Latin America that offers our clients the experience of a high level of satisfaction. Using our digital business accelerator we have managed to replicate our activities in Brazil in the countries of Latin America where we operate, with lower financial investments and development time.

#### What are the main initiatives taken by Itaú Unibanco to become the digital bank of Latin America?

In 2018, we introduced the Itaú Abre Conta application to several countries of Latin America. Citizens of Argentina, Paraguay and Uruguay can become accountholders with us in just a few minutes, using their cell phones.

The Abre Cuenta Digital, as it is called in those countries, is a full digital solution for opening accounts using any device connected to the Internet. One of the competitive advantages is the leading-edge technology, which includes facial recognition. Customers take a selfie, send a copy of their identity document and, in five minutes, they can start using the account.

We are also transforming our applications for individuals. We have incorporated several functionalities of the Itau individual customer application in Brazil into our operations in Paraguay, Uruguay and Chile, saving around 300,000 hours of development time.

We have replicated our Itaucard cards application in Uruguay, Paraguay and Colombia. The Tarjetas app, as it is known in those countries, assists our clients in organizing their credit card spending, ordering cards with immediate approval, checking balances in the points program and requesting higher limits or temporary blocking.



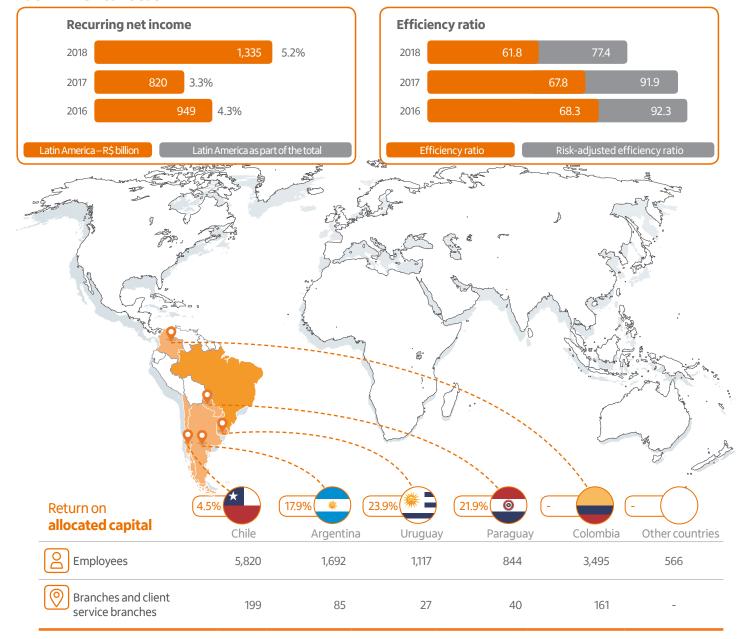
We are offering clients and non-clients in Argentina, Paraguay and Uruguay a new experience in taking out loans using our digital channels, such as the loan simulator, and a chatbot for offering and contracting products and services, among others. The Itaú Teclado experience is also available to our clients in Uruguay.

In Uruguay and Paraguay we have launched digital branches offering extended business hours (from 8 a.m. to 8 p.m.), service via WhatsApp, e-mail and telephone and online chat with Managers.

Our operations in the Northern hemisphere are expanding the range of products we can offer our South American clients and those operating predominantly in Latin America. To improve our client service we are optimizing and simplifying structures and processes, in addition to innovating on our technology platform.

All these initiatives are the fruit of close collaboration between the country teams, leading to economies of scale, transfer of knowledge and sharing of good practices. Based on this, we can offer our clients other very high added-value experiences.

#### **Latin America focus**



Source: Management Discussion and Analysis and Complete Financial Statements in BRGAAP – 2018.



We aspire to be leaders in sustainable performance, with profitability that exceeds the cost of capital while creating increasing value. Our challenge is to continually improve the efficiency of our operations, putting clients at the core of our decisions through strategic management of costs and investments in order to boost the use of our resources, while efficiently managing the allocation and cost of capital.

Efficiency is one of the pillars of our strategy for sustainable profitability, treated by the bank as a priority over recent years. We have put together initiatives ranging from the reduction of wasted capitals, to projects for higher productivity and digital transformation in the search for economies of scale and synergies for the business. Prioritizing technology products is based on a single list that takes into account the net present value of each project.

Our business model, together with risk management tools and control of efficiency, allows us to identify granular opportunities to diversify and expand our operations in response to the need to create value for our shareholders and to adjust to the limits established by our risk appetite.

Capital management is another important pillar of this strategy. In this respect, our Board of Directors has set Tier I capital at a minimum of 13.5%, while the possible surplus, if unlikely to be used, will be returned to the shareholders. In this way, dividends and interest on own capital are distributed as a function of the variation in risk-weighted assets and the return on shareholders' equity.

We remunerate our shareholders through monthly and supplementary payments of Dividends and Interest on Own capital. In 2018, our payout amounted to R\$22.4 billion, or 87.2% of the recurring net income for the year.

We also create value through our banking responsibility. As a bank, we are able to create jobs, develop businesses and foster entrepreneurship. Because with everything we think about and do, we are seeking to address our purpose: to promote the power of transformation in people. On the other hand, our business can also cause adverse impacts, such as indebtedness and environmental damage.

Using this strategy we have intensified the offer of financial products and services that have a positive impact on society. GRI G4-F57

To low-income entrepreneurs lacking the necessary attributes for access to the formal financial system we provide an opportunity for expanding their own business using microcredit. One of the main benefits of this initiative is the

fact that micro entrepreneurs begin to develop a relationship with the formal financial system.

Itaú Microcrédito has specific rules for requesting loans, among which we can mention working capital or the refurbishment and purchase of property extended to formal and informal entrepreneurs engaged in small business. Any extension of credit requires the presence of a trained microcredit agent.

Our microcredit agents offer micro entrepreneurs loans covered by free micro insurance. The agents are also responsible for sharing concepts and financial information regarding the conscientious use of money.

Microcredit can also be extended though the intermediary of civil society organizations of public interest registered with the National Productive Microcredit Program.

Our investment in microcredit is part of our strategy of operating as agents of transformation of society. This operation is very important because it strengthens our approach to sustainability, while increasing our capacity to pass on knowledge about financial education.

— Itaú Unibanco Integrated Report 2018 65



The ultimate objective is to create a virtuous circle in which the bank fosters the economic and social development of the Brazilian low-income population.

Where sustainable profitability is concerned, we are striving to encourage the power of transformation of micro entrepreneurs.

Another initiative worthy of mention was the launch of the Itaú Mulher Empreendedora (Women's Entrepreneurship) program in partnership with the International Finance Corporation (IFC), the World Bank and the Interamerican Development Bank (IDB). The program aims to support the development of businesses run by women. The values underlying this program include training for women to enhance their management techniques and to

boost their companies' results, the inspirations to seeing the path to success and connections for them to increase their networking.

The women who signed up for the program increased their sales and improved their credit indicators. Female account holders, on average, have a 77% higher maximum credit limit than other account holders.

To continue supporting the development of Brazilian female entrepreneurs, we reached an arrangement with the IDB to finance very small, small and mid-size companies managed by women in Brazil. The proceeds of the loans from BID Invest in 2017, of approximately US\$100 million, expiring in 2020, will finance these companies provided their annual revenues do not exceed a maximum of R\$8 million.

#### Microentrepreneurs profile analysis

- More than 40% attended at least high school;
- 52% are married;
- Average age is 44 years;
- 55% have dependents (average of two dependents); and
- At least 85% of applicants have their own residence, 98% of which fully paid about 20% of businesses are formal, of which 95% are individuals.

_	Portfolio (R\$ thousand)						Clients	
Sector	2018	%	2017	%	2018	%	2017	%
Commerce	8,160	59	5,130	52	2,978	62	1,311	52
Services	3,163	23	2,609	27	1,057	22	711	28
Production and commerce	2,586	19	2,094	21	797	16	502	20
Total	13,909	100	9,833	100	4,832	100	2,524	100

Learn more about Itaú Mulher Empreendedora program



Learn more about our Itaú Microcrédito





Another way of ensuring our value creation while generating positive impacts for society by including environmental, social and governance (ESG) issues into our credit, insurance and investment operations.

Sustainability is incorporated into our strategy by means of a consolidated governance structure integrated into the business, enabling us to internalize these issues and trends in our daily activities and processes.

We consider the importance of ESG issues insofar as they may affect the value of our business and our capital. As fund managers, it is our responsibility to fully grasp the risks and opportunities that can affect our decisions.

Our methodology for integrating ESG issues when evaluating companies or responsible investments involves inserting variables into traditional valuation models by analyzing their impact on cash flows and the cost of capital. The aim is to adjust the definition of the target price for securities listed on stock exchanges and to identify in advance events that can create or destroy value.

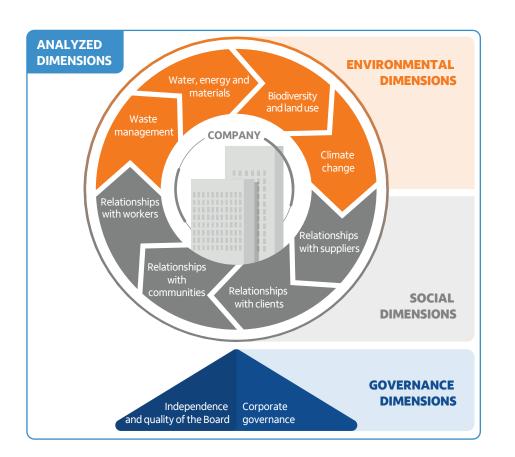
We have identified eight recurring dimensions in different sectors that can substantially affect the value of Brazilian companies. These dimensions are structured hierarchically based on their materiality for each sector. Furthermore, we

have adapted the multisectorial dimensions to the reality of each sector, identifying risks and opportunities, deriving metrics and projecting impacts according to different time horizons.

To ensure that the credit extended is aligned with ESG practices, we identify, measure, mitigate and monitor the risks that arise through our Social and Environmental Credit Risk Policy which contains the criteria of our social and environmental risk management strategy prepared on the basis of the applicable legal and regulatory requisites and best international practices. In the case of the large company segment, this analysis has a direct impact on customer credit ratings, the cost of operations, the allocation of resources to sectors of the portfolio, and types of collateral and the mix of products to be offered.

To build the sustainability initiatives into our insurance business, we moved ahead with previously drafted action plans in the search for continuous improvement in our management and governance processes. The aim of these actions plan is to work together with regulatory authorities, re-assess social and environmental risks when calculating insurance premiums and launching new products designed for different customer profiles. When pricing our insurance transactions we take into account climate and geographical factors, and the frequency and potential for social, economic and environmental tragedies.





1ª phase2ª phase3ª phaseESG ResearchQuantificationValuation

**Multi-sector** dimensions **Drivers of sector** 

specific value

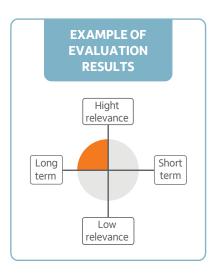
Company's performance

Revenue Cost **Expenses Provisions Capital invested Cost of capital** 

Valuation Calculation

**Calculation Social** and Environmental net present value (NPV)

Adjustment to company's fair value



### **Risk and** opportunities

Legal and regulatory

Operational

Market

Potential pricing of CO<sub>2</sub> emission

Exposure of assets to physical risks and related to changes in productivity

> Revenues from carbon credit



# **Corporate** governance

The main goal of our corporate governance is to create an efficient set of incentive and monitoring mechanisms to ensure that management members are always aligned with our stockholders' best interests in a sustainable way.

In order to achieve this goal, we have set up decision-making bodies and institutionalized procedures to align management with our meritocratic, performance-focused and long-term value-creation culture.

The following illustration presents the three pillars of our governance structure.

IUPAR (Itaú Unibanco Participações)

Itaú Unibanco

**Board of** 

**Directors** 

**Executive** 

**Committee** 

- Alignment and union among shareholders;
- Group's vision, mission and values;
- Significant mergers and acquisitions;
- Performance evaluation and admission of family members; and
- Discussion and approval of the long-term strategy.

Family control

With a long-term strategic vision



- Monitor the Executive Committee's performance;
- Nomination of executive officers (meritocracy);
- Budget approval;
- Definition and supervision of risk appetite and policies relating to the use of capital;
- Definition and monitoring of incentive and compensation models and goal setting;
- Supervision of the technologies strategy;
- Definition of meritocracy policies; and
- Business operation supervision.

#### Value Creation

Strategy definition

Implementation of Board of Director's guidelines and goals;
Business operation and strategies for products

- and segments;
- Ensure better allocation and management of financial, operational and human resources;
- Monitoring of market, credit and operational risks; and
- Operate the bank in the pursue of value creation.

Professional management

Implementation of strategy and day-to-day management

Learn more about our governance structure



— Itaú Unibanco Integrated Report 2018 69



## **Governance** structure

GRI 102-18

Our management is structured so as to ensure that the issues are widely debated and decisions taken on a collective. Below, we introduce our management bodies, their primary functions and the managers comprising them.

#### **General Stockholder's Meeting**

The company's supreme body that brings stockholders together, either on an ordinary or extraordinary basis, through a convening notice as set forth by law.

Annual Stockholders' Meeting: It is held in the first four-month period of each year, to review, discuss and vote the financial statements submitted by management, resolve on the allocation of net income for the year, payout of dividends and election of members to the Board of Directors and the Fiscal Council.

Extraordinary Stockholders' Meeting: It is held when convened to resolve on key matters that are not the exclusive responsibility of the Annual General Stockholders' Meeting.

The Annual Stockholders' Meeting is open on first call with the attendance of stockholders representing at least 25% of voting capital. Any amendments to the Bylaws should be resolved on at an Extraordinary Stockholders' Meeting, which will be open on first call with the attendance of stockholders repsenting at least two thirds of the voting capital.

Our meetings are held with a quorum representing approximately 90% of our voting capital.

#### **Fiscal Council**

An independent body operating independently from Management, our exeternal auditors and the audit Committee. It supervises the activities of our Management, examines and opines on our financial statements for the year ended, among other duties established by Brazilian law.

It is composed of three to five members elected annually by our stockholders, one of whom by minority preferred stockholders.

# Board of Directors

It is responsible for establishing our general bussines guidelines, including for our subsidiaries, and holds ordinary meetings eight times per year and extraordinary meetings whener necessary.

It is composed of 11 members, all non-executive, and of whom five are deemed independent (45%). The turnover of the Board members is carried out in accordance with our bylaws, which provide for the ineligibility of persons who have reached the age of 70, Members are elected annually by our stockholders.

#### **Board of Officers**

It implements the guidelines proposed by the Board of Directors. Officers manage our daily bussines activities, ensuring the best allocation and management of funds to accomplish the goals we have set.

It is composed of five to 30 members, including Chief Executive Officer, General Director, Director Vice President, Executive Officer and Officer, in conformity with the guidelines established by the Board of Directors for filling these positions. Members are elected annually by the Board of Directors, Each member elected to our Board of Officers must be approved by the Central Bank of Brazil. According to Brazilian law, an acting officer retains their position until they are reelected or a sucessor takes office.

#### **Disclosure and Trading Committee**

This Committee is responsible for:

Managing the Policy for the Disclosure of Material Information and the Policy for Trading Itaú Unibanco Holding S.A. Securities.

Carrying out internal actions intended to improve the information flow.

Promoting the ethical conduct of our management members and employees.

Ensuring transparency, quality, equality and security of the information provided to our stockholders, investors and other capital market players.

It is composed of:

Members of the Board of Directors.

Members of the Board of Officers of Itaú Unibanco Holding or any other Itaú Unibanco Conglomerate company.

Professionals of proven knowledge in the capital markets area.

Investor Relations Officer (a permanent member of the Committee).

Learn more about **our governance structure** 

# Our policies and rules

We adopt policies in order to formalize and consolidate existing structures to protect the interests of our employees, management members and stockholders, as well as promote our culture and values, always seeking to run business in an ethical and transparent manner, preventing and fighting fraud and illegal acts and ensuring our business sustainability.

The following illustration presents the main documents related to our corporate governance, including our Bylaws, as approved by our Board of Directors.

Policy for Trading Itaú Unibanco Holding S.A. Securities

The purpose of this policy is to establish guidelines and procedures to be followed by us and bound persons, to ensure transparency in the trading of our securities by all interested parties, without privileging some to the detriment of others.

#### **Anti-Corruption Corporate Policy**

The purpose of these policies is to establish rules for avoiding conflicts of interests in processes related to donations and sponsorships and in relationships with clients, suppliers and partners, in the public and private sectors, and also to establish guidelines and procedures to prevent and combat corruption, such as training, communication, consultation and complaint channels.

Itaú

#### Internal Charters

We have internal charters that regulate the operation of our Board of Directors, Board of Directors
Committees, Board of Officers and Fiscal Council, in conformity with applicable legislation and best corporate governance practices.

#### Corporate Governance Policy

This Policy consolidates the Corporate Governance principles and practices adopted by us so that they can be disseminated throughout our company.

Relationship Policy with Public Officials and Contracting with Bodies, Entities, and Companies of Public Administration

This policy guides the relationships of our corporate group, through its employees or directors, with public officials and public entities with respect to our institutional interests and the financial system in general, in an organized manner. Additionally, this policy also establishes rules to address our commitment to public procurement with government entities and state-owned enterprises<sup>(1)</sup>.

Learn more about our regulations and policies by clicking here

#### Integrity and Ethics Corporate Program

This Policy establishes additional guidelines to our Code of Ethics related to the Integrity and Ethics Corporate Program and situations of conflicts of interests and ethical dilemmas.

#### **Bylaws**

Our Bylaws establish our principles and rules of operation, such as the definition of the our corporate purpose, composition of capital stock, responsibilities of statutory bodies, appropriation of net income, and our listing segment in stock exchanges, among others.

#### Code of Ethics

This Code of Ethics applies to all of our employees, members of the Board of Directors and officers and is based on principles that support an organizational culture focused on the enhancement of people, strict compliance with rules and regulations and continuous development.

Policy for the Nomination of Members of the Board of Directors, Committees Reporting to the Board of Directors and the Executive Board

This policy establishes minimum requirements for the nomination of members to the Board of Directors, Board of Directors committees and our Board of Officers.

#### Transactions with Related Parties Policy

The purpose of this policy is to establish rules and consolidate procedures to be followed in related party transactions, ensuring equality and transparency and as such, ensuring stockholders, investors and other stakeholders that we are in compliance with best corporate governance practices.

# Corporate Policy and Procedure Disclosure of Material Information

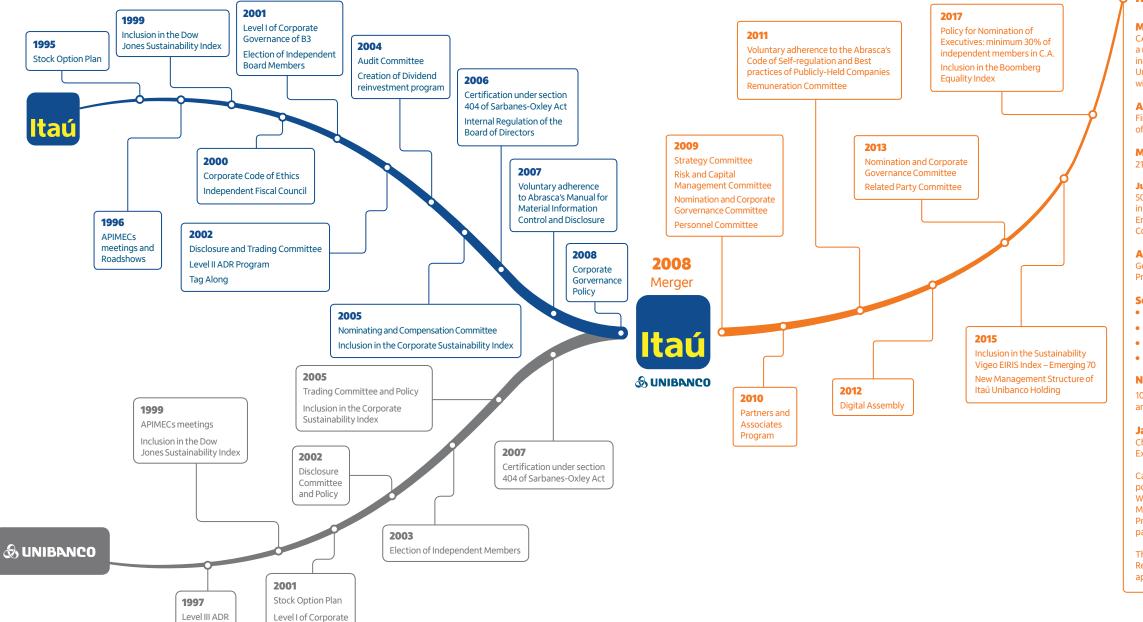
The Policy and Procedure Disclosure of Material Information addresses the public disclosure of material information and the requirement to keep such information confidential until disclosured in accordance with applicable regulations.

(1) In compliance with Brazilian laws and regulations, since 2014 we have not made any donation of funds to political parties or candidates for election purposes.

### **Our practices**

We believe that the adoption of good corporate governance practices adds value, facilitates access to capital and contributes to longevity of our organization. After the merger, we continued to evolve in line with best market practices.

Governance of B3



Highlights GRI 102-10

#### March 2018:

CADE's approval of the acquisition of a minority interest, reaffirming the independence of management – Itaú Unibanco acquired 49.9% of the capital, with 30.1% of the common shares

#### **April 2018:**

First woman elected on the Board of Directors

#### May 2018:

21 years on the NYSE

#### July 2018:

50% stock split – with a 50% increase in dividens paid monthly; Encouraging to diversity and New Dress Code "vou como sou" ("I go as I am")

#### **August 2018:**

General Data Protection Law as a Priority for Itaú Unibanco

#### September 2018:

- 16 APIMECs:
- 17 conferences;
- 7 roadshows; and
- 4 teleconferences

#### November 2018:

10 years of merger between Itau and Unibanco

#### January 2019:

Changes in the composition of the Executive Committee:

Caio Ibrahim David assumed the position of General Director of the Wholesale department and Milton Maluhy assumed the position of Vice-President of Risks and Finance, being part of the Executive Comitteee

The creation of the Social Responsability Committee was approved on January 31, 2019

### **BOARD OF DIRECTORS GRI 102-18**

"This year we remained with our regular agenda, following up the performance of the Ensurures the integrity of the internal audit, the corporate departments responsible for risk management and the Financial Statements: Complies with legal and independent auditor. The topics of great deal of attention by the Committee throughout regulatory requirements 2018 included the reports from the several areas on controls regarding information Since 2004 Ensures the efficiency of internal security risks, as well as the performance of the 2nd and 3rd lines of defence in the controls; and Risk Management in general (third line) subsidiaries abroad and their relationships with the respective parent company's of defense). departments. The Committee also focused on the Boards' actions towards certain aspects of client service and risk management in digital platforms, in addition to the 100% of the members are independent monitoring of internal control systems and management of traditional risks." 146 meetings held over 36 days Diego Fresco Gutierrez – Financial Expert of the Audit Committee "Over the course of 2018, we have made progress on relevant issues concerning People that will help us strengthen our ability to attract and retain the best talents and increase our ability to innovate and the connection with our clients. In order to support digital transformation, • Establishes policies for attracting we proceeded with the agenda of communities in technology and business, making our and retaining talented professionals; teams more multidisciplinary, in agile cells, with more autonomy and cooperation. We created Proposes guidelines for recruiting and developed new careers, such as Data Scientist, and trained thousands of employees in and training employees; and PERSONNEI topics such as Lean, Agile, Design Thinking and User Experience (UX), which are appropriate Presents long-term incentive Since 2009 programs and monitors the culture for the new environment of relationship with clients and information speed. Additionally, we of meritocracy. implemented initiatives to improve the experience of our employees, seeking to value their individualities, and to reduce bureaucracy as much as possible in the work environment. Lastly, 100% of the members are non-executive in line with the priority agendas we have been developing, we approved important changes 3 meetings in the incentives models, increasingly stimulating cooperation and team work, but always recognizing those who make the difference." Pedro Moreira Salles – Co-Chairman of the Board of Directors and Chairman of the Personnel Committee In 2018, the Committee worked effectively on the analysis of transactions between related parties, in accordance with the governance defined in the Policy for Transactions with Related Parties in Manages transactions between related RELATED order to ensure stockholders and other stakeholders that Itaú Unibanco is in compliance with the narties: and PARTIES Since 2013 Ensures equality and transparency for best Corporate Governance Practices, avoiding any conflict of interest or favoritism towards related these transactions. parties. Over the year, more than 20 cases were analyzed involving issues such as the contracting of a consulting firm, trading of investment fund units, sponsorships and donations, three of which are 100% of the members are independent disclosed to the market, in compliance with CVM Instruction No. 480/09." 15 meetings Fábio Colletti Barbosa – Independent Member and Chairman of the Related Parties Committee "During 2018, the Committee maintained its discussion agenda with regards to the structure and · Periodically reviews the criteria for composition of the Board of Directors and its Committees. In this context, the establishment nomination and sucession: of the Social Responsibility Committee, subordinated to the Board of Directors, was approved. Provides methodological support Another highlight was the discussion related to the change in the composition of the Company's for the assessment of the Board of CORPORATE Directors and Chief Executive Officer; Executive Committee, as announced to the market in September. The Committee also Nominates members of the Board of proceeded with the analysis of practices recommended by local and foreign sustainability Directors and General Managers; and indexes and governance codes aiming at the continual improvement of our Corporate Analyzes potential conflicts of interests. Governance practices. One of the measures arising from this analysis was the formalization of an 100% of the members are non-executive internal charter for the Executive Board." Alfredo Egydio Setubal – Member of the Board of Directors and Member of the 2 meetings

Nomination and Corporate Governance Committee

romotes discussions on incentive and compensation models: Develops compensation policies for management members and employees; and Establishes goals. 100% of the members are non-executive 4 meetings Proposes budgetary guidelines; Provides inputs for decision-making processes; Recommends strategic guidelines and investment opportunities (Mergers ESTRATÉGIA Desde 2009 and Acquisitions): and Internationalizes and creates new business areas. 100% of the members are non-executive 3 meetings Supports the Board of Directors; Establishes the risk appetite Evaluates the cost of capital x the minimum return expected; Allocates capital RISK AND Oversees management activities and CAPITAL risk control; Improve risk culture; and Complies with regulatory requirements. 100% of the members are non-executive 8 meetings LATAM TRATEGY COUNCIL trends, codes and standards; and Provides guidelines for the Board of DIGITAL Asses client's experience: and

"In 2018, the Compensation Committee discussed its ordinary agenda, which included the approval of the pool of the global bonus to be distributed to employees and management members. It also approved the target contracts for the members of the Executive Committee and assessed, for comparison purposes, the target contracts adopted by the market. Additionally, the Committee met with representatives of the Central Bank to present the workings of the bank's governance process for issues related to compensation, to the work dynamics of the Committee itself and, also, to the alignment of the compensation policy with the risk policy"

 ${\color{red} \textbf{Gustavo Jorge Laboissière Loyola}-\textbf{M} ember of the Board of Directors and member of the Compensation Committee}$ 

"The purpose of the Strategy Committee is to address relevant matters that have a major impact on the bank. During 2018, it discussed the achieved results and the actions planned with respect to the strategic fronts of Digital Transformation and Customer Satisfaction, it addressed the internationalization process that allows the bank to have access to new markets and to increase its scale, it revised the Policy For Sustainability And Social Environmental Responsibility and it also focused on competition in the digital environment."

Roberto Setubal – Co-chairman of the Board of Directors and member of the Strategy Committee

"In 2018, in addition to exercising its mandate to oversee the risk and capital management activities through a continuous agenda of updating and monitoring the Group's Risk Appetite, the Committee further focused its approach on emerging risks in the areas of technology, models, business and strategy, as well as in the regulatory environment."

Pedro Luiz Bodin de Moraes – Independent member of the Board of Directors and Chairman of the Risk and Capital Management Committee

Still in January of 2019, we announced the creation of the Social Responsibility Committee, that will report to the Board of Directors with the scope of defining strategies and monitor the performance of initiatives related to the subject.

Itaú Unibanco Integrated Report 2018

# **Executive Committee**



**Candido Botelho Bracher** President and CEO





**Caio Ibrahim David** Wholesale General Director



Márcio de Andrade Schettini Retail General Director



**Claudia Politanski Executive Vice-Presindent** Legal and Human Resources



**André Sapoznik** Executive Vice-Presindent IT and Operations



Milton Maluhy Filho Executive Vice-Presindent Risks and Finance (CFO and CRO)

Learn more about our executives' experience





# **Management Commentary**



Dear reader,

Begin this section of the integrated report inviting you to read the Analysis of the Result in IFRS commented on by the management and detailing the result for the year 2018, being possible to observe the results of our strategy.

We have the challenge of fully integrating risk management into business performance and incorporating in a structured way the dimensions of strategic risks. After all, managing risks is the essence of our activity and a responsibility of all employees.

The Audit Committee monitored the preparation and disclosure of the consolidated financial statements prepared in accordance with International Financial Reporting Standards (IFRS), including the assessment undertaken by Finance Department of the control environment over the process to implement IFRS 9 – Financial Instruments.

Source: Summary of the Audit Committee Report – Second Semester of 2018.

## Summarized Consolidated Statement of Income (in millions of R\$)

	From January 1 to December 31		£	Annual variation
	2018	2017	R\$ millions	%
Banking Product	104,200	111,523	(7,323)	(6.6)
Net interest, similar income and dividend	62,565	67,311	(4,746)	(7.1)
Adjustments to Fair Value of Financial Assets and Liabilities	(4,834)	4,181	(9,015)	(215.6)
Foreign Exchange results and Exchange variations on transactions	2,974	(250)	3,224	(1,289.6)
Non-interest income <sup>(1)</sup>	43,495	40,281	3,214	8.0
Expected Loss from Financial Assets and Claims	(10,182)	(20,966)	10,784	(51.4)
Other operating income (expenses)	(63,410)	(59,975)	(3,435)	5.7
Income before current and deferred income tax and social contribution	30,608	30,582	26	0.1
Current and deferred income and social contribution taxes	(4,969)	(7,357)	2,388	(32.5)
Net income	25,639	23,225	2,414	10.4
Net income attributable to owners of the parent company	24,907	23,193	1,714	7.4

(1) Includes banking services fees, income related to insurance and private pension operations before claim and selling expenses, net of reinsurance and other income. See our complete Financial Statements (IFRS) -402018 for more details.



Our **Net Income Attributable to the Owners of the Parent Company** increased by 7.4% in 2018, compared to the previous year. These results are detailed as follows:

Net interest, similar income and dividend decreased by 7.1% in 2018, compared to 2017, mainly due to the effect of lower basic interest rates (the average SELIC from 9.9% in 2017 to 6.6% in 2018) and exchange rate variations (the Brazilian real depreciated 17.1% against U.S. dollar in 2018 and 1.5% in 2017) on our strategy for hedging the effects of exchange rate variation on our foreign investments, as further detailed in "Current and deferred income and social contribution taxes".

Adjustments to Fair Value of Financial Assets and Liabilities decreased by 215.6% in 2018, when compared to 2017. This decrease was mainly due to the effect of exchange rate variation on our hedge strategy for our foreign investments (approximately R\$68 billion at the end of 2018). This effect was offset by the reduction in tax expenses, as further detailed in "Current and deferred income and social contribution taxes".

Foreign Exchange Results and Exchange
Variation on Transactions amounted to a gain
of R\$2,974 million in 2018, compared to a loss of
R\$250 million in 2017, mainly due to the effect of
exchange rate variations in the period. As already
stated, the Brazilian real depreciated against the
U.S. dollar

Non-Interest Income rose by 8.0% in 2018, minly due to: (i) asset management fees, as a result of a higher volume of funds under management (growth of 16.6% reaching R\$1.1 trillion) and higher revenues from performance fees; (ii) income from credit and debit card service fees. mainly driven by higher interchange revenues resulting from an increase in the volume of transactions and revenues from credit and debit card annuity fees; and (iii) income from current account services, mainly due to higher number of current-account holders. The growth of income from fees from both credit and debit card services and current account services was also related to the incorporation of Citibank's retail operations, which took effect in November and December of 2017 and was fully recognized in 2018, having been consolidated on October 31, 2017.

Expected Loss from Financial Assets and Claims decreased 51.4% in 2018 compared to 2017, mainly due to lower expenses with expected loss with loan and lease operations with individuals and legal entities, as a result of the improvement in the credit quality our portfolio. From 2015 to 2017, we made greater provisions due to an economic context with deteriorating credit quality, mainly in the wholesale banking segment. More recently, we have noticed an improvement in the credit rating of our large corporate clients, which has reduced our expected loss with other financial assets.

Other Operating Income (Expenses) increased by 5.7% in 2018 when compared to the previous year. Personnel expenses grew by 6.7%, in the wake of the collective bargaining agreement (which resulted in 5% wage increase for bank employees) and the higher headcount due to the hiring of new insurance consultants, REDE sales representatives and technology department personnel to speed up our digital transformation process. We had more than 100,000 employees at the end of 2018, an increase of 1.0% compared to the previous year. Administrative expenses rose by 6.0% in the period, mainly due to the higher cost of third-party services, such as advisory, consultancy, advertising, promotion and publication.

**Current and deferred income and social contribution taxes** fell by 32.5% in 2018 compared to 2017, mainly due to the fiscal effect on the hedge instruments for our investments aboard.

The result of exchange rate variation on our investments aboard is non-taxable, unlike revenue from our hedge instruments, which is. With the depreciation of the Brazilian real, we incurred losses on hedge instruments abroad, which affected our tax expenses in both periods.

# Basis for Presentations of Segment Information

Our segment information is based on reports used by senior management to assess the financial performance of our businesses and to make decisions regarding the allocation of funds for investment and other purposes.



Segment information is not prepared in accordance with IFRS, but according to the accounting practices adopted in Brazil as established by the Bacen. It includes the following pro forma adjustments: (i) the recognition of the impact of capital allocation using a proprietary model; (ii) the use of funding and cost of capital at market prices, using certain managerial criteria; (iii) the exclusion of non-recurring events from our results; and (iv) the reclassification of the tax effects from hedging transactions we enter into for our investments abroad.

We present below the summarized results from our operating segments for the year ended December 31, 2018.

The following analysis should be read in conjunction with our audited consolidated financial statements, especially "Note 30 – Segment information." The adjustments column shown in this note shows the effects of the differences between the segmented results (substantially in accordance with the accounting practices adopted in Brazil) and those calculated according to the principles adopted in our audited consolidated financial statements in IFRS.

# **Retail Banking**

The result from this segment is derived from the banking products and services provided to a diversified customer base of account holders and non-account holders, individuals and companies in Brazil. It includes retail customers, high-income customers (Itaú Uniclass and Personnalité), and very small and small companies. It also consists of financing and lending activities at units other than the branch network and credit cards, in addition to transactions with Itaú Consignado.

### **Summarized Consolidated Statement of Income**

from January 1 to December 31, 2018 (in millions of R\$)

	Retail Banking	Wholesale Banking	Activities with the Market + Corporation	Consolidated BRGAAP	Adjustments	IFRS Consolidated
Banking product	72,182	29,389	10,246	111,817	(7,617)	104,200
Cost of credit and claims	(13,686)	(1,608)	-	(15,294)	5,112	(10,182)
Other operating income (expenses)	(40,002)	(15,217)	(1,070)	(56,289)	(7,121)	(63,410)
Income tax and social contribution	(6,939)	(3,829)	(2,964)	(13,732)	8,763	(4,969)
Non-controlling interest in subsidiaries	(184)	(550)	(35)	(769)	37	(732)
Net income	11,371	8,185	6,177	25,733	(826)	24,907

# Summarized Consolidated Statement of Income – Retail Banking

(in millions of R\$)

		From January 1 to December 31		Annual variation
	2018	2017	R\$ millions	%
Banking product	72,182	69,921	2,261	3.2
Cost of credit and claims	(13,686)	(13,388)	(298)	2.2
Other operating income (expenses)	(40,002)	(37,601)	(2,401)	6.4
Income tax and social contribution	(6,939)	(7,107)	168	(2.4)
Non-controlling interest in subsidiaries	(184)	(166)	(18)	10.8
Net income	11,371	11,659	(288)	(2.5)



The previous table shows the summarized consolidated statement of income with respect to our Retail Banking segment for the years ended December 31, 2018 and 2017:

Our **net income** in retail banking decreased 2.5% in 2018 compared to the previous year. This result is explained as follows:

Banking product rose by 3.2% compared to previous year. This growth derived from: (i) an increase of 4.3% in interest margins on account of higher volumes of credit originated with individuals and small and medium business, reflecting growth of 10.3% in retail loan operations in 2018; and (ii) an increase of 4.3% in banking service fees, mainly driven by revenues from current account services, given the increased number of current-account holders, and by credit and debit card fees, given the higher number of clients and transaction volume. This result was partially offset by a reduction in the results from insurance and private pension operations.

**Cost of credit and claims** increased by 2.2% in 2018 when compared to 2017, in line with the previously mentioned loan portfolio growth in the segment in Brazil.

Other operating income (expenses) rose by 6.4% when compared to the previous year, mainly due to the intensification of investments in acquiring and insurance operations and by the incorporation of the retail operations acquired from Citibank. Additionally, these expenses felt the impact of the increase in the number of employees and the collective bargaining agreement.

# **Wholesale Banking**

The result of this segment is derived from the products and services offered to middle-market companies, private banking clients, the activities of the Latin American units (excluding Brazil), including those of CorpBanca as of the second quarter of 2016 following the merger between Banco Itaú Chile and CorpBanca, and the activities of Itaú BBA, the unit in charge of commercial operations with large companies, in addition to operating as an investment banking unit.

The following table sets out the summarized consolidated statement of income with respect to our Wholesale Banking segment for the years ended December 31, 2018 and 2017:

# Summarized Consolidated Statement of Income – Wholesale Banking

(in millions of R\$)

	From January 1 to December 31		An	nual variation
	2018	2017	R\$ millions	%
Banking product	29,389	28,748	641	2.2
Cost of credit and claims	(1,608)	(5,882)	4,274	(72.7)
Other operating income (expenses)	(15,217)	(14,523)	(694)	4.8
Income tax and social contribution	(3,829)	(2,412)	(1,417)	58.7
Non-controlling interest in subsidiaries	(550)	117	(667)	(570.1)
Net income	8,185	6,048	2,137	35.3



Our **net income** in wholesale banking increased by 35.3% from 2017 to 2018. This result is explained as follows:

**Banking product** rose by 2.2% compared to the previous year, mainly because of the increase of R\$934 million in banking service fees, partially offset by the R\$496 million decline in interest margins. The increase in banking service fees was due to higher revenues from asset management services, related to higher balances and the performance fee of managed portfolios and investment funds.

**Cost of credit and claims** declined by 72.7% compared to the previous year, mainly due to the improvement in credit ratings in this segment, leading to a lower volume of provisions and even resulting in reversals in the period.

**Non-controlling interest in subsidiaries** amounted to a loss of R\$550 million in 2018, mainly reflecting the better results of our operations in Chile.

# Activities with the Market and Corporation

This segment includes the results from investing our surplus capital, the costs of our surplus subordinated debt and the net balance of tax assets and liabilities. It also includes the financial margin on market transactions, the costs of treasury operations and equity pick-up from companies not linked to any segments, as well as adjustments related to minority shareholdings in subsidiaries and our equity interest in *Porto Seguro*.

The following table shows the summarized consolidated statement of income with respect

to our Activities with the Market and Corporation segment for the years ended December 31, 2018 and 2017:

**Banking product** fell by 3.5% as a consequence of lower interest margins with market.

**Net income** in this segment decline by 13.9% in 2018. This decrease was mainly due to the increase of R\$1,189 million in income and social contribution taxes from the recognition of deferred tax assets at a rate of 40% and, as our effective tax rate in 2018 was temporarily increased (due to the current legislation), tax payments at a rate of 45%.

# Summarized Consolidated Statement of Income – Activities with the Market (in millions of R\$)

		From January 1 to December 31		Annual variation
	2018	2017	R\$ millions	%
Banking product	10,246	10,623	(377)	(3.5)
Cost of credit and claims	-	(6)	6	(100.0)
Other operating income (expenses)	(1,070)	(1,647)	577	(35.0)
Income tax and social contribution	(2,964)	(1,775)	(1,189)	67.0
Non-controlling interest in subsidiaries	(35)	(23)	(12)	52.2
Net income	6,177	7,172	(995)	(13.9)

Itaú Unibanco Integrated Report 2018



# **Balance Sheet**

We present below our summarized balance sheet for 2018 and 2017:

# Summarized Balance Sheet – Assets (in millions of R\$)

		As of December 31	Variatio	
	2018	2017	R\$ millions	%
Cash and compulsory deposits in the Central Bank of Brazil	131,307	117,586	13,721	11.7
Financial assets at amortized cost	994,759	905,729	89,030	9.8
Loan operations and lease operations portfolio	536,091	497,719	38,372	7.7
(-) Provision for Expected Loss	(33,373)	(36,737)	3,364	(9.2)
Other financial assets <sup>(1)</sup>	492,041	444,747	47,294	10.6
Financial assets at fair value through other comprehensive income	49,323	52,149	(2,826)	(5.4)
Financial assets at fair value through profit or loss	286,646	273,536	13,110	4.8
Investments in associates, and jointly controlling entities, Fixed assets, Goodwill and Intangible assets and other assets	47,932	42,990	4,942	11.5
Tax assets	42,830	44,249	(1,419)	(3.2)
Total assets	1,552,797	1.436,239	116,558	8.1

<sup>(1)</sup> Includes Interbank deposits, Securities purchased under agreements to resell, Securities and Other Financial Assets.



Our **Total Assets** grew by 8.1% from 2017 to 2018, mainly due to the larger loan operations and lease operations portfolio and other financial assets at amortized cost. These results are detailed as follows:

**Loan Operations And Lease Operations Portfolio** increased by 7.7% in 2018, compared to 2017, mainly due to growth of 9.9% in individuals, 14.1% in small and medium business and 11.5% in the Latin America portfolios. This result was partially offset by a reduction of 4.6% in the corporate portfolio. It is worth pointing out that individuals portfolio produced growth in all products, as shown in the next table.

This growth is the effect of the higher volume of loans in response to higher demand for credit, especially in the small and medium business and individuals portfolios. In the corporate portfolio, we saw higher demand for securities reflecting the uptick in capital market activity. The Latin America portfolio was positively impacted by the variation of the Brazilian real against the currencies of those countries where we operate.

**Other Assets At Amortized Cost** grew by 10.6% in 2018 mainly due to the higher volume of securities purchased under agreements to resell as part of our asset and liability management strategy.

# Loan and Lease Operations, by type

(In millions of R\$)

	As of December 31			Annual variation
	2018	2017	R\$ milhões	%
Individuals	212,564	193,385	19,179	9.9
Credit card	78,255	67,413	10,842	16.1
Personal loans	29,543	27,295	2,248	8.2
Payroll Loans	46,878	44,716	2,162	4.8
Vehicles	15,920	14,165	1,755	12.4
Mortgage loans	41,968	39,796	2,172	5.5
Corporate	102,643	107,647	(5,004)	(4.6)
Small and Medium Businesses	68,812	60,290	8,522	14.1
Foreign Loans Latin America	152,072	136,397	15,675	11.5
Total Loan operations and lease operations portfolio	536,091	497,719	38,372	7.7

**Financial Assets At Fair Value Through Profit Or Loss** rose by 4.8% due in the main to higher allocations of assets guaranteeing technical provisions related to pension plans.

Investments In Associates And Jointly Controlling Entities, Fixed Assets, Goodwill And Intangible Assets And Other Assets grew by 11.5%, mainly because of an increase in the noncontrolling interest in XP Investimentos (49.9% of the total share capital). **Other Assets At Amortized Cost** grew by 10.6% mainly due to the higher volume of securities purchased under agreements to resell as part of our asset and liability management strategy.

Growth in our **Total Liabilities** can be explained, in the main, by higher deposits, securities sold under repurchase agreements and reserves for insurance and private pension. These results are detailed as follows:



**Deposits** grew by 15.0% in the year, primarily time deposits, due mainly to the migration of resources from repurchase transactions involving collateralized debentures booked as securities sold under agreements to resell.

Securities Sold Under Repurchase Agreements grew by 5.6% mainly due to higher proceeds from repurchase agreements on collateralized third-party securities. As mentioned above, this increase was partially offset by the migration of funds from repurchase agreements on collateralized debentures.

Interbank And Institutional Market Debt And Other Financial Liabilities rose by 5.5% due to a higher volume of financial credit bills and import and export financing.

**Reserves For Insurance And Private Pension** were up by 11.0% in the period boosted by the higher volume of technical provisions for private pensions.

**Stockholders' Equity** increased by 4.1% in 2018, due primarily to net income. We remunerate our stockholders by means of monthly and supplementary payments of dividends and interest on own capital. In 2018, we paid or provisioned in our stockholders' equity R\$23.7 billion before taxes, R\$22.4 billion net of taxes. Under the buyback, in 2018 we acquired 19.7 million our own non-voting shares, totaling R\$510 million.

# Summarized Balance Sheet - Liabilities and stockholders' equity

(In millions of R\$)

	As of December 31			Annual variation
	2018	2017	R\$ milhões	%
Financial Liabilities	1,151,237	1,056,717	94,520	8.9
At Amortized Cost	1,119,734	1,024,584	95,150	9.3
Deposits	463,424	402,938	60,486	15.0
Securities sold under repurchase agreements	330,237	312,634	17,603	5.6
Interbank market debt, Institutional market debt and Other financial liabilities	326,073	309,012	17,061	5.5
At Fair Value Through Profit or Loss	27,711	27,211	500	1.8
Provision for Expected Loss	3,792	4,922	(1,130)	(23.0)
Reserves for insurance and private pension	201,187	181,232	19,955	11.0
Provisions	18,613	19,736	(1,123)	(5.7)
Tax liabilities	5,284	7,836	(2,552)	(32.6)
Other liabilities	26,010	26,362	(352)	(1.3)
Total liabilities	1,402,331	1,291,883	110,448	8.5
Total stockholders'equity attributed to the owners of the parent company	136,782	131,378	5,404	4.1
Non-controlling interests	13,684	12,978	706	5.4
Total stockholders' equity	150,466	144,356	6,110	4.2
Total liabilities and stockholders' equity	1,552,797	1,436,239	116,558	8.1

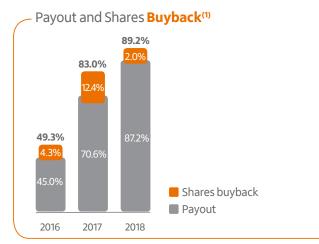
- Itaú Unibanco Integrated Report 2018

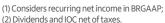


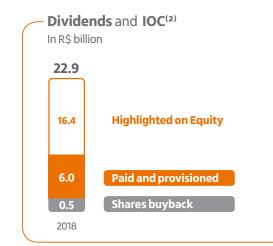
# **Capital Index**

The Basel Ratio stood at 18.0% on December 31, 2018, with a reduction of 0.8 percentage points in relation to December 31, 2017, mainly due to the payment of additional dividends related to the 2017 net income. Tier I (Common Equity Tier I + Additional Tier I Capital) was 16.0% and 1.9% in Tier II. Please see "Note 32 – Risk and Capital Management" for further details on our capital risk management.

Considering the applicable Basel III rules, our Tier I capital was 15.9% at the end of 2018. Due to our Stockholder Remuneration Policy described on page 62 of this report, and taking into account the effect of 2.4 percentage points after additional payment of dividends and interest on own capital, our Tier I capital achieved the 13.5% target at the end of 2018. By the same measure, our Common Equity Tier I ratio stood at 12.5% at the end of 2018.







#### Full application of Basel III rules | December 31, 2018 15.9% 13.5% 13.5% 12.9% 12.5% 14.9% Tier I Dividends, IOC Aditional Tier 1 Tier I Additional Tier I Net Income Assets Dec-17 and other and shares Capital issued dividends Dec-18 after deductions Equity changes buyback and on Mar-18 and and IOC additional RWA exchange rate dividends and IOC variation

Additional Tier I (AT1)

Common Equity Tier I (CET I)



(1) Figures on the date of signature of the contract, which were adjusted up to the financial settlement date; (2) Respectively certificates of deposits, securitized real estate loans and securitized agribusiness loans; and (3) Applicable to PGBL and VGBL products.

# **Highlights of our business in 2018:**

**Acquisition of Citibank retail business in Brazil** As of 31 October 2017, after approval from the regulatory bodies, we acquired Citibank's retail business in Brazil.

Citibank's retail business in Brazil includes 71 branches. had, as of the date of execution of the Equity Interest Purchase Agreement, approximately 300,000 retail bank clients, approximately 1.1 million credit cards, a credit portfolio of approximately R\$6 billion and approximately R\$35 billion in deposits and assets under management. The retail operations of Citibank in Brazil were consolidated on October 31, 2017, affecting our result in November and December of 2017 and recognized fully in 2018.

### **Perpetual Subordinated Notes**

In March 2018, we accessed the international debt market by issuing US\$750 million in perpetual subordinated notes/AT1<sup>(1)</sup>. We had already issued US\$1.25 billion of these notes in December 2017. The Central Bank of Brazil approved the inclusion of this debt, as from the issue date, in the bank's Reference Equity as Additional Tier I Capital for the bank's Tier I Capital ratio. The total increment was approximately 90 basis points on the Tier I Capital capitalization ratio, seeking to maintain our CET1 at 13.5% and distributing any surplus

## **Expansion of digital payment means: Apple Pay and** Samsung Pay

As of the first quarter of 2018, our clients were able to use Apple Pay (exclusively for three months) and Samsung Pay as of June. Both tools are new ways for clients to make payments in the retail and e-commerce segments, enabling them to shop with their iPhone, Apple

Watch, iPad and MacBook (Apple Pay) or Samsung Smartphones and Smartwatch Gear (Samsung Pay).

### **POP Credicard**

In July 2018, we announced the entry of the Credicard brand into the merchant acquiring segment, with a POS machine family (POP Credicard and Mega POP Credicard), which can be purchased through its website. Besides selling POS machines, the strategy is to have a simpler commercial proposal, based on shorter payment terms to retailers and competitive rates for debit and credit card transactions. This operation seeks to target self-employed individuals, microentrepreneurs and small companies. This initiative is an addition to our product offering in the acquiring market.

### XP Investimentos S.A. – Minority interest

In August 2018, we concluded the acquisition of a 49.9% minority interest in XP Investimentos through a capital injection of R\$600 million, and the acquisition of R\$5.7 billion<sup>(1)</sup> in shares. The contract also provides for a one-off additional transaction in 2022, subject to future approval by the Central Bank and which, if approved, will enable us to hold 62.4% of the total equity of XP (equal to 40.0% of the common shares) based on an income multiple (19 times) of XP, with control of the XP group remaining unchanged, in the hands of the shareholders of XP Controle Participações S.A. The acquisition of XP Investimentos S.A. did not have a significant impact on our results.

## No fees charged for Treasury Direct bonds, **Pension funds and Fixed Income products** In September 2018, we zeroed out our custody fees for Tesouro Direto (direct retail purchases of treasury direct bonds) offered by Itaú Corretora and for fixed income products (bank deposit certificates

(CDBs)(2) from other managers, financial credit bills, debentures, real estate receivables certificates (CRIs) (2) and agribusiness receivables certificates (CRAs)(2)). Additionally, we also zeroed out the initial and final contribution fees for Private Pension plans(3) for all bank customers. This initiative provides them with more investment options in a scenario of low interest rates.

### Ticket – Minority interest

On September, 2018, we entered into an agreement with Edenred. Under this agreement, we will make a minority investment of 11% in Ticket, by means of a capital increase to be paid (i) in cash, equivalent to the book value of such equity interest, and (ii) with the contribution of distribution exclusivity rights regarding Ticket Restaurante, Ticket Alimentação, Ticket Cultura and Ticket Transporte to Itaú's corporate client base. Ticket will continue to distribute its products by means of other commercial agreements. The completion of this transaction is conditioned upon the necessary regulatory approvals.

Finally, I would like to invite you to read our complete IFRS Financial Statements, containing more detail and explanatory notes referenced throughout this document. I remember that our Investor Relations team is always at your disposal.

Sincerely,



**Milton Maluhy Filho** Executive Vice-President, CFO and CRO



# Independent auditor's limited assurance report on the Integrated Annual Report 2018

To the Board of Directors Itaú Unibanco Holdings S.A. São Paulo - SP

### Introduction

We have been engaged by Itaú Unibanco Holdings S.A. ("ItaúUnibanco") to present our limited assurance report on the compilation of selected information related to the Integrated Annual Report 2018 of Itaú Unibanco Holdings S.A. for the year ended December 31, 2018.

# Responsibilities of the management of the Company

The management of Itaú Unibanco is responsible for the preparation and fair presentation of the selected information included in the Integrated Annual Report 2018, in accordance with the criteria issued by International Integrated Reporting Council (IIRC) and for such internal control as it determines is necessary to enable the preparation of information free from material misstatement, whether due to fraud or error.

# Independent auditor's responsibility

Our responsibility is to express a conclusion on the selected information included in the Integrated Annual Report 2018, based on our limited assurance engagement carried out in accordance with the Brazilian standard NBC TO 3000, "Assurance Engagements Other than Audit and Review", issued by the Federal Accounting Council (CFC), which is equivalent to the international standard ISAE 3000, "Assurance engagements other than audits or reviews of historical

financial information", issued by the International Auditing and Assurance Standards Board (IAASB). Those standards require that we comply with ethical requirements, including independence requirements, and perform our engagement to obtain limited assurance that the information included in the Integrated Annual Report 2018, taken as a whole, is free from material misstatement.

A limited assurance engagement conducted in accordance with the Brazilian standard NBC TO 3000 and ISAE 3000 mainly consists of making inquiries of management and other professionals of the entity involved in the preparation of the information, as well as applying analytical procedures to obtain evidence that allows us to issue a limited assurance conclusion on the information, taken as a whole. A limited assurance engagement also requires the performance of additional procedures when the independent auditor becomes aware of matters that lead him to believe that the information taken as a whole might present significant misstatements.

The procedures selected are based on our understanding of the aspects related to the compilation and presentation of the information included in the Integrated Annual Report 2018, other circumstances of the engagement and our analysis of the areas in which significant misstatements might exist. The following procedures were adopted:

(a) planning the work, taking into consideration the materiality and the volume of quantitative and qualitative information and the operating and internal control systems that were used to prepare the information included in the Integrated Annual Report 2018 of Itaú Unibanco;

- (b) understanding the calculation methodology and the procedures adopted for the compilation of indicators through interviews with the managers responsible for the preparation of the information;
- (c) applying analytical procedures to quantitative information and making inquiries regarding the qualitative information and its correlation with the indicators disclosed in the information included in the Integrated Annual Report 2018.
- (d) comparing the financial indicators with the consolidated financial statements in IFRS and/or accounting records; and
- (e) verifying that the Integrated Annual Reporting includes information about the content elements and the basic principles established in the guidelines proposed by the Framework issued by the IIRC.

## **Scope and limitations**

The procedures applied in a limited assurance engagement are substantially less detailed than those applied in a reasonable assurance engagement, the objective of which is the issuance of an opinion on the information included in the Integrated Annual Report 2018. Consequently, we are not able to obtain reasonable assurance that we would become aware of all significant matters that might be identified in an assurance engagement, the objective of which is the issue of an opinion. If we had performed an engagement with the objective of issuing an opinion, we might have identified other matters and possible



misstatements in the information included in the Integrated Annual Report 2018. Therefore, we do not express an opinion on this information.

Non-financial data are subject to more inherent limitations than financial data, due to the nature and diversity of the methods used to determine, calculate and estimate these data. Qualitative interpretations of the relevance, materiality, and accuracy of the data are subject to individual assumptions and judgments. Furthermore, we did not consider in our engagement the data reported for prior periods, nor future projections and goals.

## **Conclusion**

Based on the procedures performed, described herein, no matter has come to our attention that causes us to believe that the information included in the Integrated Annual Report 2018 has not been compiled, in all material respects, in accordance with the guidelines of the criteria described throughout this report.

São Paulo, April 30, 2019

**PricewaterhouseCoopers** 

Auditores Independentes CRC 2SP000160/O-5

Washington Luiz Pereira Cavalcanti

Contador CRC 1SP172940/O-6