



**International Conference Call
Itaú Unibanco
Second Quarter 2020 Earnings Results
August 4th, 2020**

Operator: Good morning ladies and gentlemen, welcome to Itaú Unibanco Holding's conference call to discuss 2020 Second Quarter Results.

At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session. Questions can be submitted via telephone by pressing * 1 or via WhatsApp Mobile app by scanning the QR code provided or WhatsApp Desktop app through the hyperlink provided.

If you should require assistance during the call, please press the star key followed by zero. As a reminder, this conference is being recorded and broadcasted live on the investor relations website at www.itaú.com.br/investor-relations. A slide presentation is also available on this site.

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

With us today in this conference call in São Paulo are **Mr. Candido Bracher**, President and CEO; **Mr. Milton Maluhy Filho**, Executive Vice President, CFO and CRO; **Mr. Alessandro Broedel**, Executive Director, Group Head of Finance and Investor Relations; and **Renato Lulia Jacob**, Head of IR, and Market Intelligence.

First, **Mr. Candido Bracher** will comment on 2020 second quarter results. Afterwards, management will be available for a question and answer session.

It is now my pleasure to turn the call over to **Mr. Candido Bracher**.

Mr. Candido Bracher: Thank you for taking time to attend to our 2020 second quarter earnings call. I hope you are all well and safe.

So let us now please move to slide number 2. I would like to start by briefly discussing the macroeconomic backdrop which influenced our performance in the management strategy during this period.

So we have just improved what can arguably be considered the worst quarter in Brazilian history from a macroeconomic point of view. This becomes evident in our expectation of a GDP contraction of just over 10%, as well as the extinction of around 1.3 million formal jobs in this period. To face this scenario, government reacted and



cut interest rates to new historical lows; 2.25%. Additionally to this date, it has injected approximately R\$ 370 billion into the economy, worthily 5% of GDP.

This very complex dynamic can be seen in the chart at the bottom of this the slide where we brought a daily variation of the Itaú Economic Activity Index. This index was built upon the high frequency data that we gather on our credit and debit card transactions and enabled us to monitor the economy reactions close and regularly.

The economic activity bottomed out at the end of March with a 45% contraction when compared to pre-pandemic levels. However, we have already seen encouraging signs of a recovery over the following months, and last weeks' data show that we are already at 90% of pre-COVID 19 activity levels.

Moving to the next slide now, we were quick in identifying this crisis that it could be different from any other challenge we have faced in our 96-year history, not just in its nature, but in net scale. We soon realized the credit would be the major risk factor for the financial sector and that was exactly where we intensely focused our attention. Therefore, we acted fast and decided a life course of action must be extra careful and go the extra mile to support our customers.

We believe that in the medium term our initiatives will contribute to reduce potential credit losses and reinforce the perception of customers that we were present when they most needed us. We are convinced this will more than compensate for any short-term loss of profitability.

So here we show that since the beginning of the crisis we have originated over 96... [temporarily mute]... also worked side-by-side with the government and actively participated in the programs they launched to support the most at-risk segments. We were the first private bank to commit participating in PRONAMPE program to finance more retailers and we disbursed all the facilities allocated to us in just a few hours and 100% digitally. In addition, we extended R\$ 1.6 billion in the emergency payroll financing program for micro and small companies, and we enrolled R\$ 2.9 billion to support energy generators, distributors and retailers.

Finally, on the left part of this slide, we launched a program with a wide range of customized solution that includes grace periods, extended long terms and additional credit offers. This unprecedented initiative seeks to offer more [...] to individual customers and micro and small companies, helping them traverse with this crisis with greater tranquility.

By the end of June, this program has already benefited roughly 2 million customers with R\$ 52 billion in loans that were reprofiled.

So on slide 4 now, we go into more details about the R\$ 52 billion loan portfolio that was reprofiled with new repayment conditions, out of which 72% were individuals, 28% were micro and small companies. Firstly, it's important to highlight that 100% of those clients were performing (meaning no past-dues) by the end of February. 58% of this



portfolio was already collateralized from the insertion. Additionally, 90% of the portfolio is currently rated as AA to C.

Finally, we show that the number of grace period request has decreased significantly over the past 45 days, you see on the bottom chart.

Now on slide 5, and before we move into our earning analysis, I'd like to address 2 additional subjects. Here in slide 5 we describe how the donations to the *Todos Pela Saúde* Program were used. We have already allocated more than R\$ 1 billion, and this resource was spread out in 4 different pillars of actions to help fight the COVID-19 pandemic. It's important to emphasize that this is a nationwide program, and as an example I would like to highlight not only the donation of 105,000 oximeters, which were distributed to all the municipalities in Brazil (over 5,000), but also the donation of R\$ 100 million to produce 2 of the most advanced vaccines in partnership with Fundação Oswaldo Cruz and the Butantan Institute.

Now on slide 6, another feature. We present the integration of ESG teams into the bank's business and operations. Itaú Unibanco has a long ESG history that began more than 2 decades ago. At the top of this slide, we present a timeline showing the main milestones of this evolution, such as our participation in the Sustainability Index Portfolios and adherence and commitments to good sustainability practices.

Two weeks ago we set a new milestone where in partnership with Bradesco and Santander we launched a joint plan to promote sustainable development in the Amazon. This plan consists of 10 concrete measures divided into 3 priority fronts, which are shown here. These actions were personally presented to the vice-president of the country and to other government representatives, and our next step will be to define clear and intangible goals and objectives for this program.

Being one of the largest financial institutions in Brazil, we intend to actively contribute to the country sustainable development and protect the Amazon region. Additionally, it is important to highlight 2 important initiatives: The first one is our goal to become 100% compliant with the task force in climate-related financial disclosures by 2022; lastly, in line with international transparency practices, we reported 12 out of the 14 sustainability accounting standards board indicators in our 2019 integrated annual report.

Moving now to the results of the quarter, so here we show that the bank ended the second quarter of 2020 with a R\$ 4.2 billion recurring net income, which translated into a ROE of 13.5%. This 7.4% net income growth was led by a 23% reduction in the cost of credit and higher trading gains. However, these effects were partially offset by the negative impact of the crisis on our fees and NII. We also had a higher effective income tax rate due to the full impact of the 5 percentual points increase in social contribution effective in this quarter.

Finally, the loan portfolio grew by 2.9% and in the period with a balance of R\$ 811 billion, which we will discuss in further detail in the next slide.



Moving to the next slide, so they are 3 things that I would like to highlight in this page: First is that the loan portfolio was practically stable if we adjust it for the Forex variation in the period; second is that there was a substantial change in mix between segments as large corporates growing a strong 3.6% quarter on quarter and individuals contracting by 3.9%; lastly, within the individuals' portfolio, there was a very important change in the mix of products, there was a substantial contraction in credit cards and secured personal loans and overdraft. This movement reflects not only a change in customers' behavior and a drop in consumption levels, but also (and very importantly) our active risk management approach as we discourage the use of those products.

The growth of 44% in personalized credit with new payment conditions partially compensate for this drop. Naturally, this change had a negative impact on our financial margins in the short term, as we will soon see in the next slide. But we do believe it is a good trade up, temporarily [...] part of our margin in order to protect the principal.

On slide 10 we show that the change in the credit mix as we explained in the previous slide generated 2 effects: The migration of products within the retail portfolio posted a negative effect of R\$ 600 million on our NII; secondly, the higher participation of the wholesale segment led to a further reduction of R\$ 700 million in the financial margin.

Finally, the lower SELIC rate had a negative impact of R\$ 300 million on the remuneration of our working capital. These effects were partially offset by the higher average credit volume and by the Forex rate impact on the financial margin of our operations in Latin America and in aggregate product 80 basis points compression in our net interest margin.

Now on slide 11 we present the evolution of the expected loss provision model and cost of credit. Before entering the numbers specifically, think it's important to explain the way we demonstrate the provision on this chart. The provisions for overdue operations strictly follow the rules defined by the regulator, where a minimum level of provisioning is required when the loan is overdue. This is the grey layer.

The next dark blue layer is what we call aggravated risks. These are related to the amount we have provision for overdue or renegotiated credits above the minimum defined by the regulator. Finally, the light blue layer we have the potential losses, which contain provisions we have made for credits that are not delinquent nor renegotiated.

As the table on the left shows, the increase is not related to actual delinquencies and it is basically related to our future losses expectations. Thus, as in the previous quarter, our model required additional provisioning, albeit at a much lower levels than in the previous quarter. This resulted in the growth of the coverage of the NPL 90 days for the third consecutive quarter as it reached 281%, the highest historical level for the bank.

Although the cost of credit is still above the normal, it already showed an important contraction of 23% this quarter. This is reflection of all the actions we have taken since the onset of the crisis and the improvement in the microeconomic and financial conditions, which fit into our expected losses model.



Now moving to slide 12 we show that due to the intensity of the credit renegotiations and the proactive offering of more flexible payment terms, the nonperforming loans went down considerably. We believe, though, these numbers do not properly reflect the full extent of the crisis yet.

Moving now to slide 13 we can see that the financial margin with the market showed an important recovery in the quarter, now more in line with its historical levels. This performance was mainly due to the higher gains in the trading desk and in our operation in Latin America.

On slide 14 we see a 10.5% drop in service revenues in the quarter, basically reflecting the lower economic activity triggered by the COVID-19 crisis. Despite this effect, we observe that our revenues are stable in the semester when compared with the same period of the previous year. This is mainly due to the good performance of the asset management division as well as of the advisory and brokerage services.

I would like to point out too that our acquiring operation volumes are already at the same level as in the previous year and our credit card issuance operation is closely behind.

Finally, I would like to highlight that our open platform for investments, which just started a couple of years ago, reached R\$ 275 billion of assets under custody, which represents a 7.2% growth over just one quarter.

On slide 15 we show our non-interest expenses, which are another important element of our performance. When we compare this quarter with the same period of the previous year, we can observe a decrease of 4.4% in our consolidated expenses with a 6.8% decrease in Brazil. If we adjust it for inflation expected in Brazil, it fell in real terms by an impressive 9% in the period, that can be seen in the chart at the bottom of this slide.

One of the reasons we became more efficient is due to our consistent investments in technology. As you can see on the left side of this slide, this is an area we continue to put more resources on, and we will continue to do so in the future.

Now on slide 16 we show how the usage of our digital channels has evolved over this crisis. Our digital customer base increased by 17.1% over the last year while we opened almost 1 million new bank accounts entirely through our app just this semester, which represented 131% increase year over year. Notably, we saw a particular increase in the adoption of digital channels of clients aged 50 and above. Currently, 47% of clients in this segment are using our apps and website. And despite the higher demand and volume of transactions in the digital channels, the availability of services remained at the highest levels in our history while our apps continue to be highly praised by our customers.

Finally, I would like to share with you a success case in how technology can help clients, particularly in this crisis. In record time, we deployed new functionalities in our



digital channels, which enabled a fast and seamless deployment of over R\$ 5.2 billion in government-sponsored facilities.

Now on slide 17 we show that our Tier I regulatory capital has already shown a slight recovery despite the still volatile scenario and ended the quarter with 12.1% capital ratio.

And finally, in the slide 18 we decided to keep our guidance suspended due to the unprecedented nature of this crisis and due to the fact that the health crisis has not yet been quelled and unfortunately there is no prospect for that.

And despite the still low visibility ahead of us, I believe it's important to keep a sense of direction to you as to what we are currently expecting:

- Capital and liquidity should remain at appropriate levels considering our internal stress test scenarios;
- In the short-term, we should continue to see the large corporate portfolio expanding at a higher pace than retail. This trend of change in mix may reverse if there is an increase in demand for credit from individuals and more activity from capital markets;
- Due to the above and to the potentially lower SELIC rate, it is possible that we will see further marginal reduction in the average rate of the financial margin with clients in the short-term;
- Commissions, fees and results from insurance should perform in line with the recovery trend of the economic activity and the reopening of capital markets;
- We should see a further reduction in the cost of credit in the short-term. Our provisions will remain anchored in the expected loss model that will react promptly to changes in the country's macroeconomic scenario and the financial conditions of our clients;
- We feel confident we will be able to deliver additional efficiency gains in the next quarters as a result of the continuous investment in technology, new ways of working, optimization of distribution channels and structural efficiency projects.

So with this, I conclude this presentation and we may now start the Q&A session.

Question-and-Answer Session

Operator: Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question, please press the star key followed by the 1 on your touchtone phone. The questions will be limited to 2 per participant. If at any time you would like to remove yourself from the questioning queue, please press star 2.

Our first question comes from Jorg Friedemann, of Citibank. Please, go ahead.

Mr. Jorg Friedemann: Thank you very much for the opportunity to make questions. I have 2 questions. Starting on provisions, you had this coverage of renegotiated loans despite the increase in coverage versus total NPLs, and I also [...] this cost of credit quarter over quarter, so clearly your expected loss model is maybe a little bit more optimistic ahead.



Although I understand the scenario is still very fluid, I'd like to hear what you've seen from loans that already lost your [...] this year, how are they performing versus the normal renegotiated portfolio and how relevant you believe this sample might be to predict the future behavior of operations and the grace period nowadays.

And my second question relates to fees...

Mr. Candido Bracher: Jorg, I'm sorry, I have a problem; I really can't understand what you are saying. I couldn't understand your first question, there is a problem in the reception here.

Mr. Jorg Friedemann: Can you hear me better now or should I try to, let's say, another phone? Can you hear me now?

Mr. Candido Bracher: If you could dial-in again or if you speak very slowly and clear, because I really can't understand.

Mr. Jorg Friedemann: Okay, I will try to speak very slowly. My question is, for the loans that already left your released program *Travessia*, how are they performing versus the normal renegotiated portfolio and how relevant you believe this sample might be to predict the future behavior of operations under grace periods nowadays? Okay? This is my first question. Could you understand it?

Mr. Candido Bracher: Yes, I could.

Mr. Jorg Friedemann: Perfect.

Mr. Candido Bracher: Well, without going into too much details, Jorg, I can say that we had a first wave of renegotiations when we offered 60-day grace period for basically everybody at the onset of the crisis, and many of these offers have matured now, some of them went into the *Travessia* offers, that means prolonging the grace period, but many have paid. So the level of payment in this first prolongation of 60 days has surprised us, I mean, it has been above what we would have expected given the fact that the crisis only worsened in the first 60 days.

So when we follow up this renegotiated portfolio, the sensation is good, and what we are seeing in terms of liquidation, in terms of financial health of the companies is rather positive.

Mr. Jorg Friedemann: Perfect. And my second question relates to fees. You soft guided what [...] should improve quarter over quarter ahead. And I'd like to understand, you [...] incorporating this scenario, the implementation of PIX (the instant payment platform of the Central Bank) already this year, and could that jeopardize growth of some line items, such as checking accounts, debit cards and data collections? Thank you.

Mr. Candido Bracher: Thank you, Jorg. Well, we expect PIX to be implemented during the second semester, but it will start slowly. It will certainly have an effect on some of



our income, TEFs and other transfer income that we have in the bank, but we rather think it will be a very powerful tool in accelerating financial activities in Brazil, thus, positive for our business.

I don't know, Milton, if you want to complement anything here relating PIX.

Mr. Milton Maluhy Filho: No, I agree with you, Candido. We believe PIX is still a project, we are going to work towards making it to be important in the financial system. We are not protesting the impacts of it for this year yet, of course, there is a ramp-up of the project and we don't believe that this will bring major impacts this year. But, yes, you are right, in the midterm we should see some impacts arising from PIX, but more competition it is more in terms of better experience for our clients and we are going to work very closely to Central Bank to make it happen. So this is our strategy over here.

And in terms of fees, we believe that some of the reasons why we expect a better performance in fees in the second semester somehow has to do with investment banking activity, wealth management activity. Those lines that we are having a very good performance, and also in credit card volumes we see (not only in debit, but credit card) important recovery for the next semesters as we already saw in the previous month. So we believe that the activity coming could be more relevant in the second semester and this will have a direct impact in our fee lines.

Mr. Jorg Friedemann: That's perfect, thank you very much. Very clear.

Mr. Milton Maluhy Filho: Thank you, Jorg.

Operator: Our next question is from Henrique Navarro, of Santander. Please, go ahead.

Mr. Henrique Navarro: Hi, good morning everyone. My first question is on provisions. I do understand, based on our presentation, that we shall see provisions going down on the second semester compared to the first semester. But my question is: Maybe can we see on the third quarter the cost of risk going back to normalized levels? Let's say, the current improvement in the macroeconomic scenario continues. But maybe can we see cost of risk coming back to normalized levels already in the third quarter? That's my first question.

The second question is, I would like to hear your strategic view on 2 companies: On Itaú CorpBanca and on IRB. In the case of Itaú CorpBanca specifically if you consider some delisting or anything like that. Thank you.

Mr. Candido Bracher: Thanks for your question. Regarding provisions, so we have adopted a prudent stance in this crisis, as I explained, since we think that the most fragile spot is credit and we have seen this since the beginning, Henrique. So I tend to think it will be too soon in the third quarter to see the cost of credit going back to normalized.



I think... I mean, it may be paradoxically seeing this happening as delinquencies increase in the next year. So, so far, I think we will keep on seeing this movement of provisioning for complementarity provisions, I mean, provisions design made based on expected loss model. I think they will reduce, but not yet to what we may call normalized levels.

Then the 2 companies you asked, Itaú CorpBanca and IRB. In Itaú CorpBanca, we see a normal development, we see no societary activity there whatsoever. I mean, it's normal course of business, the management I think is performing well, the crisis is being tamed adequately in our view, I think the Chilean economy will recover normally and so it's business as usual for Itaú CorpBanca.

For IRB, as you know, we are in the process a closed capital raising and we have confirmed that we will subscribe our 11.5% share of participation, then we are inclined to studying raising this should there be room for this, which we will know by August 30. So that's it, Henrique.

Mr. Henrique Navarro: Very clear, thank you.

Operator: Our next question comes from Jorge Kuri, Morgan Stanley. Please, go ahead.

Mr. Jorge Kuri: Hi, good morning everyone. I have 2 questions if I may. The first is on your credit card business. The card issuance fee was down 22% sequentially and card acquiring 16%. Evidently, the lockdown in the second quarter had a negative impact. I wanted to understand how July and the few days of August are trending, how rapidly is that coming back? Where are you sort of on... vis-à-vis a pre-COVID level are you at now? 80%, 90% or 0, below that? Any color that you can provide will be very useful.

And then my second question is on competition. How is competition shaping up in the banking system? Because the margin was very [...] in 2017, 18, 19 on competition, mainly from a lot of new Fintech-driven providers on all different verticals of your business.

How is that going along? I mean, how are those companies doing? Are you seeing more aggressive, less aggressive, less funding, more funding? Signs continue to pick up. Do you see them in parity because their balance sheets are not as strong as yours? Any particular view that you have on how that Fintechs-base is evolving during this pandemic would be helpful in order to understand the competitive pressures that your business is facing and will face once this is gone. Thank you.

Mr. Candido Bracher: Thank you for your questions, Jorge. On credit card, credit card follows more or less the same standard that we've shown in the first slide of the economic activity, so it fell very drastically right after the crisis – credit card expenditures, right? –, so it fell over 40%, and right now it's between 10 and 15% below what are the historical levels of expenditures in credit card as a whole.



Of course, this varies a lot sector to sector. You have some sectors where it's still way below what it used to be, sectors more tied to tourism, restaurants and things like this, and other sectors that never really fell, like supermarket and things like these. But in average, we are between 10 and 15% below.

It's just a guess, but I don't expect this to come to 100 very soon. So I think since the risk of contagious is still there, we don't see some of these activities recovering immediately, not in a foreseeable period, until the end of the year.

Now, competition. How is competition so far? We continue to see a very strong competition in the specific areas of the bank, where the competition is stronger. I think the competition is strongest in acquiring business and in the investment business. In the acquiring business, the competition really managed to have good quarter in their services, and they are having bigger penetration, whereas the incumbents suffered from a heavier cost structure and less contracted system. So here we have a lot of work to do and we've been doing, I mean, we have just hired a new CEO for our acquiring business (Rede), I mean, Paula she comes from Carrefour, and it's a sector where we have a lot to do.

We have already stabilized the loss in market share, but we have a lot to do in order to regain profitability in this segment, but, I mean, we have always been into competition, I mean, you learn with your competitors and we are doing that, and we are optimistic about the prospects.

The other sector I would point out is investments in general. So we have an exciting quarter this last quarter with a lot of marketing activity on every side, and this is a sector where we have not only been able to defend our market share in the market; I think we are the only incumbent doing so, but as it always has been good and improving. But competition tends to increase.

With the insertion of PIX in the payments, you have even more competition in more traditional areas, like credit and wholesale banking. There is less visible competition from newcomers and we see...and of course, we have to stay on guard, but see that we ourselves are improving a lot, the improvements we have made in our asset management platform recently are impressive and we are gaining market share there, gaining profitability as we showed in one of our slides how our open platform in asset management is doing.

So it's a varied portfolio, it's different competitors in each part of the portfolio. As I said, the strongest being the acquiring business and the investment business, but in all of the business we see competition, and this is why we are also making investments and changes and trying to improve our services across the board.

Mr. Jorge Kuri: Thanks, Candido. And if I may just add, specifically on the lending business, on the Fintech lenders and some of the Fintech banks, how are those trends doing? Do they have the balance sheet strength to withstand the increase in NPL that we are seeing? Do they have the funding necessary to support the businesses? How is that specific area [audio breakage] moving along?



Mr. Candido Bracher: Jorge, excuse me, I think I have a problem with my phone here because I'm having great difficulty in understanding.

Milton, did you understand the question? Milton didn't understand it either. So maybe if you could talk a bit slowly and louder.

Mr. Jorge Kuri: Sure, my question was a follow-up on competition, if you could see specifically on the Fintech lenders how competition is evolving with the asset management, brokerage and the payments. I want a little bit more specifics on the lending business, on the Fintech lenders, on the Fintech bank, how are those moving along, do they have capital to manage the crisis, are their NPLs performing worse/better than you would expect? One of the new lenders got a lot of experience. How specifically are the Fintech lenders doing in this environment?

Mr. Candido Bracher: We don't see them, Jorge. We don't see them yet. I mean, maybe as a lender I could point out some credit card banks, which also have a lending activity, though the lending activity is not the core, and they are growing. But in terms of general loans and so on, I mean, they are still very, very small in this market. I don't see no one having outstanding performance there.

Mr. Jorge Kuri: All right. Thanks, Candido. Thanks for your answers.

Mr. Candido Bracher: Thank you very much, Jorge.

Operator: Our next question comes from Carlos Gomez, HSBC. Please, go ahead.

Mr. Carlos Gomez: Thank you. Good morning. Two questions from me. The first one refers to how you see your position in XP going in the future. The second is if you can explain would this [...] route of much of the goodwill of CorpBanca this quarter, but it did not affect your financial statements. Can you tell us exactly what you did and whether you would consider an increase in participation in the bank in the future? Thank you.

Mr. Candido Bracher: Thank you, Carlos. So concerning our participation in XP, this is a participation we invested in a little over 3 years ago because we saw a company acting in a market which we had difficulty in replicate, which model we had difficulty in replicating, and with a very good leadership and competitive spirit and so on.

All these colleagues are still there, and we are very happy with the investment we have made, so we just follow it closely. As you know, the Central Bank has [...] from acquiring control or for having a more active role in the company, so we follow this is an investment. But being an investment, I think it's an important one because it gives us position in a market which... in a part of the market which is growing, and which is not that easy to replicate from our own side.



We can compete in this investment segment, we do compete, we have been keeping our market shares there, but not exactly in the same model that XP is doing. So we are happy with the investment in XP and we do not intend to change this.

In terms of CorpBanca and the accounting moves we have made there, I mean, I think your question is why did this have a small impact on our own figures in Brazil, and the reason is the following: There is a difference between the Chilean legislation and the Brazilian legislation in how you treat the over price that you pay. Here in Brazil, you can absorb it quarter by quarter and can deduct it, but not in Chile. So we had already made... almost fully deducted the over price we paid for CorpBanca. This is why it had an impact of 19 million, only 19 million in our balance sheet.

But I will pass to the experts who can go into more detail.

Mr. Milton Maluhy Filho: Carlos, hi, this is Milton. So let's just go through Itaú CorpBanca. We had an impairment of almost US\$ 1 billion in Chile, when we look to Brazil you have to take in consideration 2 main effects: The first one is that we've been amortizing the goodwill since 2015, we will deduct for 10 years, so at the moment we made the impairment in Chile we had already amortized an important portion of the goodwill we had accounted in Brazilian GAAP, okay? This is local regulation; and second, you have to take in consideration that we have only 38% of the bank, so you have to adjust the amount of the impairment to our participation in Itaú CorpBanca; and the third effect is that we can only generate a credit shield, a tax credit here in Brazil to this impairment if there is an impairment in Chile. So as they reported a loss in the balance sheet, when we bring this loss to Brazil, this impacts our tax credit generation.

So tax credit, plus the amount of investment that we had already amortized, plus the 38% of the investment we have, it comes up to R\$19 million. This was the impact in the quarter. So it was irrelevant for Brazil.

Mr. Carlos Gomez: Okay, so, again, essentially your tax loss crystallized at the moment there is a loss in Chile and you can impair it in Brazil, so the effective tax rate on the impairment, as we saw, is higher, it's almost 50% or so, right?

Mr. Milton Maluhy Filho: Yeah, we have around R\$ 700 million in tax credit in Brazil due to this impairment. This is the amount we have.

Mr. Carlos Gomez: Thank you very much.

Mr. Milton Maluhy Filho: You're welcome. Thank you.

Operator: Our next question comes from Jeffrey Elliott, of Autonomous Research. Please, go ahead.

Mr. Jeffrey Elliott: Hello, thanks very much for taking the question. On the reprofiled loans, you gave an indication that the payments that have started up again have been better than you expected. Can you give us some numbers around that, what proportion



of clients who stopped paying are now paying again? And are those clients (who've now resumed payments) are they included within the reprofiled loan numbers that you provided? Thank you.

Mr. Candido Bracher: Thanks for your question, Jeffrey. We are not disclosing numbers on that, but what these clients made, I mean, they paid in full and they are not in any of the other programs now, and this has been a higher proportion than we had anticipated.

Another part of the clients went into what we call the *Travessia*, I mean, into the extended lines we have offered, and these clients we follow their vital signs and we are also positively impressed by what we are seeing.

The result from this, what you see is a number provisioning base on expected losses. So the reason why our provisioning throughout this quarter compared to last quarter is because of the improvement we are seeing in these clients, I mean, the perspectives of the portfolio.

Mr. Jeffrey Elliott: Got it. And the R\$ 38 billion of loans to individuals, they were reprofiled in the 15 billion of loans to small business, does that include those clients who were reprofiled, but have now started paying again?

Mr. Candido Bracher: Yes, it does.

Mr. Jeffrey Elliott: Thank you.

Mr. Candido Bracher: You're welcome.

Operator: Our next question comes from Jason Mollin, Scotia Bank. Please, go ahead.

Mr. Jason Mollin: Yes, hi. My question is also related to the asset quality, it's kind of a follow-up. Itaú Unibanco reported a decrease to the NPL ratio in the second quarter sequentially. As you even commented in your press release, this is the lowest level since the Itaú Unibanco merger. You also just said, I think it is written in the release as well, that the NPL ratios don't really fully reflect the current crisis and the drivers what you were just describing (the reprofiled loans).

Can you help us understand the risk levels you see in the portfolio? You do show the D through H loans are stable quarter on quarter, second quarter versus first quarter, and you just mentioned again the 23% decline in loan provisions quarter on quarter. So is this a signal that the risk is declining? I think that's what you were just mentioning or was this just reflecting the very high level provisions in the first quarter Thanks.

Mr. Candido Bracher: Hi Jason, how are you? No, I think this is both, I mean, I think we were prudent on the first quarter, so we made an amount of provisions of a situation that we were seeing and by that we expected it could have had a worse evolution than the one we are actually witnessing, and also, I mean, we see an improvement in the situation going forward.



When we look at these delinquency levels, I mean, it's a bit paradoxical, but I think that the credit quality... the provisions will come down as delinquencies go up next year because this is when we are going to see actually how bad these companies and individuals have been affected by the crisis.

Of course, it's still pending to know how well Brazil will emerge from the crisis. So far, this year we are seeing a performance which is better than we have anticipated, but as we mentioned on the second or first chart here, this was due to a 5% of GDP investment by the government from the onset of the crisis up until now. This is not sustainable. I mean, we will not have the same level of government intervention going forward. Maybe still for some months, but we can't have it forever.

So in our provisioning, in our expected loss model, we of course assumed that there will be a reduction in government support for these companies and for these individuals going forward.

Mr. Jason Mollin: Very helpful, thank you.

Mr. Candido Bracher: Thank you.

Operator: Our next question comes from Tito Labarta, of Goldman Sachs. Please, go ahead.

Mr. Tito Labarta: Hi, Candido and everyone. Thank you for the call. A couple of questions also. First on your margins. If you look, margins kind of fell a bit, partly it makes lower interest rates, so we did see margins increase at your peers. You also did benefit from higher trading gain. So just to understand, you know, do you think the margins have bottomed now? Do you think the mix shift continue to impact margins? Have you fully realized the impact of lower interest rates? Just to understand why [...] basis your margins suffered a bit more. Are you being more aggressive in your pricing of loans? If you can maybe give some more color in terms of margins and how that should evolve from here.

And my second question is on your capital. Also, you know, comparing to your peers, they seem to recover a bit more. Your capital, your core tier I ratio they go up 10 basis points, but you are below the 11-12% that is historically where you been, and your peers kind of seem to have recovered. Is that because of your offshore investments? Do you think that [...] to that 11-12% level, you know, how comfortable are you with the capital at these current levels? Thank you.

Mr. Candido Bracher: Thank you, Tito. So on our margins, I think it's close to bottom, but I wouldn't say they have bottomed. I think we may still see some of the transfer from credits for individuals and small and medium companies to large companies going forward, and they reflect a clear decision that we have taken to protect the credit control, so to use the most adequate and cheapest possible lines to our clients in order to traverse the crisis.



So our bet here is that not only this will improve the quality of the credit portfolio, but this will generate a very positive response in terms of reciprocity from the clients as the economy develops after this.

So I think we may still see some compression in the margins in the next quarters, but at a lower pace, and then I think it's going to evolve [...].

As to capital, how comfortable are we with the [...], I mean, as you know, our risk appetite says that we must have a 13.5% of capital I ratio, and this is made so that we have enough capital support shocks. What happens is that when the shocks came, we have supported this. So in this circumstance, we are comfortable with the present level of capital we have, and we think it's adequate in the present situation.

Having said that, of course, we are in a way as the economy recovers, as the balance sheet recovers, of taking it back to the recommended levels by the Board, which is 13.5. We think we are not in a haze to do it, but we are looking very seriously at it and looking at every measure we can in order to speed up this recovery.

Mr. Tito Labarta: Thank you, Candido, that's helpful. If I can just follow-up. On the margins, do you feel that you are maybe being a bit more aggressive than your peers in terms of sort of offering better credit lines for the companies? And then, as you mentioned, maybe that will play out better in the future when you have better asset quality. And here is just to understand the dynamics as it was a little bit different between yourself and your peers.

And also, just following up on the capital as well, is your capital lower now compared to your peers? Is it because of the offshore international investments or is there anything else driving that?

Mr. Candido Bracher: Okay, the first question, as you know, we try not to speak about our peers, but I will just give you an example, which is PRONAMPE. PRONAMPE is a line by the government, I think (if I'm not wrong) it has 6 months grace and then 30 months of payment and it costs over [...] plus 1,25. So it's a very cheap line, very good for clients, it's for companies which have sales of up to US\$ 800,000 a year or so, R\$ 4.8 million.

We are the only privately-owned bank which has already disbursed the line, and we did it more than 2 weeks ago right after it was approved, and we did it in 2 days totally digitally.

So I think this somehow reflects the stance we have adopted, which appears to be somewhat different from our competitors, looking more at offering the best possible alternatives to clients so as to help them deal with the situation.

In terms of capital, yes, I think that the main difference is probably our investments abroad, which make us more subject to the effects in the exchange rate. I think this is what caused a fire effect in our capital when compared to us. But now we have already



reduced this, as you know, but we still feel the partly effect a bit in the overhedge strategy and a bit in the RWA.

Mr. Tito Labarta: Okay, that's very clear. Thank you, Candido.

Mr. Candido Bracher: Thank you Tito.

Operator: Our next question is will come from Piedad Alessandri, of Credicorp Capital. Please, go ahead.

Ms. Piedad Alessandri: Hi, thank you very much for [...]. I wanted to ask regarding Itaú CorpBanca. We know that Itaú CorpBanca and the capitalization strategy, we know that [...] wants to bring forward the sale option of Itaú CorpBanca Colombia for about US\$ 350 million. How do you plan to finance those strategies, and do you expect to bring forward the sale? And if you could give us further details regarding the capitalization strategy.

Mr. Candido Bracher: Thanks for your question. I will ask Milton, who is more familiar with the region, to answer it.

Mr. Milton Maluhy Filho: Hi. Yes, we have actually a [...] executed with our core group, who are January of 2022, who are US\$ 330 million plus interest. We are not planning to anticipate this acquisition, it's still pending the local regulator's approval, not only in Chile, but also in Colombia. But we still expect that this acquisition will be made in January of 2022. So we don't believe we are going to be anticipating that.

In the other hand, of course, when we do our capital planning looking for 5 years ahead, we consider this acquisition because it has in fact an impact in capital. So all the capital planning that we disclosed for the bank we consider the acquisition, even though it's only going to be executed in 2022.

Ms. Piedad Alessandri: Perfect, thank you very much. And another question is regarding Itaú's grace period. We know that you have a 120 and 180 days grace period for the renegotiated loans. When do you expect to have most of the renegotiated loans to be free? When do you start paying again?

Mr. Candido Bracher: Well, we have already started, as I just said, because at the onset of the crisis we offered a general 60-day grace period, and many clients took this 60-day grace period. It was only nature that we offered the 180 and the 120 days grace period, and we also offered for those clients which had already taken the 60 days, but many of them decided not to take the new grace period and payback in a portion much higher than what we had anticipated, and we follow the vital signs of the clients, so we are glad with what we are seeing there.

But to answer your question, I mean, we have started this practice late April, so it was April, May, June, 4 months on that, so it will be started the end of August, September, October when they will start paying back.



Ms. Piedad Alessandri: Thank you very much.

Mr. Candido Bracher: Thank you.

Operator: Our next question comes from Nicholas Riva, the Bank of America. Please, go ahead.

Mr. Nicholas Riva: Yes, thanks very much for taking my question. I only have one question, and it is kind of a follow-up to prior questions about the restructuring, the renegotiations of loans. I saw that you seem to be including separately, to be separating the loans which have been reprofiled because of COVID-19, these R\$ 52 billion in consumer loans and SME loans from the renegotiated loans from the stock of the R\$ 5 billion.

Is there a reason for that why you are not including them together? Do you look at them differently or is there a difference in your risk profile between this reprofiled loans, the R\$ 53 million and the stock of renegotiated loans? Thank you.

Mr. Candido Bracher: Yes, Nicholas, you are right. The stock of 52... the stock of renegotiated loans, those loans which had already been renegotiated until February of this year, were of companies which were having a poor performance in a normal environment, so which problems cannot be exclusively attributed to the COVID-19 crisis. So there we have more elements to be worried about these credits and to have a closer look at them.

Then, after the COVID-19, we are treating them differently because we see that most of the companies there the problems are exclusively arising from the situation of sudden stop in the economy. So these companies, which is the 52 billion, we put in a different bracket and we follow differently. Also, these companies we separate in 4 different levels, companies and individuals, according to some standard data about them and we follow these 4 different levels separately the delinquency... not the delinquency levels, but, I mean, the levels of activity in each of them, how their sales behave and so on.

So we have a very precise follow-up on the financial health of these companies divided in these 4 groups and separated, as you correctly pointed out, from those which had already been renegotiated when the crisis struck.

Mr. Nicholas Riva: Okay, thank you very much, Candido. So then just a quick follow-up. Then it would be fair to assume, based on what you are saying, that there should be a [...] recovery value and a lower need for loans provisions in the reprofiled loans in these R\$ 53 billion compared to the stock of renegotiated loans?

Mr. Candido Bracher: Yes, definitely I think that the performance of these R\$ 53 billion should be way better than in the stock.

Mr. Nicholas Riva: Okay, thanks very much, Candido.



Mr. Candido Bracher: Thank you, Nicholas.

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

Mr. Candido Bracher: I just wanted to thank you all for listening, for the interest, for the questions and to reaffirm which was our strategy in dealing with this unprecedented crisis, which was one of support to our clients because we saw that that was the right thing to do and because we are looking at the quality of the credit portfolio as the main part of attention going forward.

Operator: That does conclude our Itaú Banco Holding's earnings conference for today. Thank you very much for your participation, and you may now disconnect.