International Conference Call
Itaú Unibanco
First Quarter 2020 Earnings Results
May 5th, 2020

Operator: Good morning ladies and gentlemen, welcome to Itaú Unibanco Holding conference call to discuss 2020 First Quarter Result.

At this time, all participants are in a listen-only mode. Later, we will conduct a question and answer session and instructions will be given at that time. 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.itau.com.br/investor-relations. A slide presentation is also available on this site.

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

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

First, **Mr. Candido Bracher** will comment on 2020 first quarter result. 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: Hi, good morning everyone and thank you for taking the time to attend to our first earnings call of 2020. I hope you are all well and safe.

To start our presentation, let's move straight to slide number 2, please. Before discussing the financials, we cannot obviously avoid talking about the crisis we are all going through and its impact on our lives and, consequently, its impacts in our results.

By mid-March of this year when the crisis broke out, it's true that extensions are becoming more evident as days go by, but they are not yet completely clear.

So I would like to use today's first 3 slide as a speedway to the presentation we did on April 6th in order to discuss and update you on the different initiatives we have put in place to deal with the impacts of COVID-19 in our company and in our community.

Since the very beginning, it became evident to us we needed to start acting proportionally to the role we have in Brazil as the largest financial institution in the country and in Latin America. So, we first began by making sure we could operate normally under very exceptional circumstances. We were very fast in moving 95% of all our workers from central administrative, call centers and digital branches to work from home remotely. On the brick-and-mortar branches, we have taken every measure possible in order to make our employees and clients safe. This has included, among other things, supply of masks, of safety equipment, implementing social distancing measures and reinforcing hygiene protocols.

We also wanted to make sure our teams had the support and peace of mind to focus all their attention to suppliers, so we announced some additional measures, such as affirm job security by suspending all terminations without cause and we also advanced the payment of the 13th salary. And so, our teams are tirelessly working on developing the best solutions to help our clients. We reinforced and improved our digital channels, which are operating now at the highest historical availability level. And in the last weeks, account openings through digital channels more than doubled in absolute terms. We have increased our communication in an important way, both internal and external, and we are getting very strong satisfaction ratings in this front. For example, our Employee Net Promoter Score has reached 92 points over the last few weeks, which represents an increase of 22 points over the month of February.

But while all those initiatives are absolutely key, they are just part of our response to crisis. As I said before, we felt we needed to act proportionally to our relevance in the Brazilian society, and with this in mind we launched an initiative called *Todos Pela Saúde* (Everybody for Health) Program. We have donated R$1 billion specifically to this initiative and another R$300 million for scattered actions against the pandemic. And for *Todos Pela Saúde,* we have formed a group of distinguished health specialists, which is responsible for directing the resources so that all strategic decisions regarding these funds are backed by technical and scientific fundaments, and we are inviting others to join us at this initiative.

If you move now to slide 3, so let's briefly go through some important initiatives we launched at our retail bank to support individual clients and SMEs to navigate through these hard times. We have started by providing a 60-day grace period on loans in general, and then we have double it for individuals who were on time with their payments and we have tripled it for small companies with reduced interest rates.

On top of this, we are offering to extend the terms of the contracts so that the installments adequately fit the cash flow of the client after the grace period is over. This initiative aims at enabling our clients to get their financials back on track after we are through with this crisis. Up until the end of last week, over 850,000 clients have refinanced their loans under these terms of the offer.

We have also announced several other initiatives in the past 20 days or so to extend benefits and exemptions for our clients to support the liquidity of small and medium-sized companies in their transition to the delivery sales model during the social distancing phase which we are going through.

If we move to page 4 now, slide 4, you see the work we've been doing in our wholesale bank has not been any different, aiming at supporting our clients in the best possible way. Right after the crisis started, there was an increase in demand for liquidity, especially from corporate clients, so we put our balance sheet to use and doubled our credit origination in diverse industries and with very good credit ratios. For middle market companies, we are now offering a 90-day grace period for amortizing credits and we have proactively supported larger companies by postponing maturities of loans that expire in the coming months.

We substantially intensified our communications with our clients through different channels. A very interesting factor we are noticing is that a banker can now make many more virtual meetings with clients in a day instead of going there and visiting them physically. It's also worth mentioning the vast amount of specialized daily content we are bringing in lives in order to help them in their investment decisions.

So that's the backdrop of what we are living today; a health crisis that we still do not know how long it will last and how deep we think that will be, nor when and how quickly life will return to normal. With that in mind and going back to what I said in the very beginning of this call in terms of making sure the bank was operating normally, we took that as steps in order to make our balance sheet even more resilient as you will see in the next slides.

So now moving to slide 6, and the proper financial highlights. So here we notice we've ended the first quarter of 2020 with a R$3.9 billion recurring net income and a 12.8 ROE. Although we've had a good start of the year, especially in the first 2 months, this quarter's result already incorporates some effects of the crisis. This is most evident in the reinforcement of our balance sheet with the additional provisions indicated by our expected loss model, which will be discussed in further detail later in this presentation.

During the quarter, our loan book grew 8.9% reflecting basically the increase in credit origination, especially on corporate clients, as well as the effect of Brazilian Real devaluation. Finally, we had another very strong quarter in terms of cost management posting a nominal contraction of 0.8% when compared to the first quarter of 2019, and a 7.3% decrease *vis-à-vis* the last quarter. This is the result of our continued focus on technology and automation and our discipline in making our processes and structures lighter and more efficient.

Now moving to slide 7, credit portfolio. We look in more detail on how our loan portfolio expanded 18.9% in the last 12 months. The growth in the quarter was mainly led by our wholesale portfolio, especially corporate loans as a reflex of our support for liquidity needs of our clients.

Our credit origination in Brazil went up 36% when compared to the first quarter of last year, notably increasing 72% for corporates within origination. Even when considering only the first 2 months of the year, credit origination was already up 22.5% in Brazil with a 30% increase for corporate clients. It's worth mentioning that we also saw an acceleration in our fund in compliance (you see there in the bottom right of the page) and demand for more conservative investment products increased during this period.

Moving to slide 8, now profile of our credit portfolio. The objective here is to show you that we have a credit exposure by business line, client's concentration and especially industry. The highest industry concentration overall in our portfolio is real estate, and it represents only 3.7% of our book. Sectors most exposed to the impacts of the current crisis, such as oil and gas, leisure and tourism and airlines add up to only 2.4% of our total credit portfolio.

Lastly, on currency diversification, it's important to mention that all credit operations are naturally hedged because they are funded in the same respective currency.

Now we move to slide 9, where we explain a little about our expected loss provisioning model. So here we describe our loan portfolio, our loan loss provisions and how the bank's expected loss model works. This model has been used since 2010 and has been constantly evolving.

The model works differently for wholesale and for retail. While in the wholesale the approach is much more bottoms-up where the clients are individually assessed and discussed in credit committees, on the retail we rely on statistic models that deal with an increasing number of variables and that already have a relevant share of artificial intelligence considering the high number of clients and transactions involved.

This is a very simplistic description of the engineering behind the model is to provide some insight on how we incorporate all available information in order to estimate future credit losses and so to anticipate provisioning needs.

On the chart to the right, you will find a breakdown of our loan loss provision. Total provisions growth from 39.7 billion to 47.1, therefore, a 7.4 billion increase, out of which 5.2 were built to absorb potential losses considering expected impacts from the crisis on our clients with no delinquency under debts.

In the financial statements, you see a different a breakdown of those provisions and the labels are a bit different. You see that our complementary provisions increased by 4.3 billion last quarter. Although the labels are different, the objective is the same: To prepare the balance sheet to absorb future losses.

Moving now to slide 10, cost of credit, it's a result of what I just mentioned: an increase in our cost of credit during the quarter to 10.1 billion corresponding to 5.5% of our total credit portfolio and increasing our coverage ratio by 10 percentage points, to 39%.

On slide 11, still on credit quality, here we have a longer time series of provisions in nonperforming loans so that you can see that we entered this crisis in a reasonably well-behaved levels of NPLs, 3.1%, and a high level of provisions and coverage, 6.6%. We strongly believe that this is the most prudent approach.

Now moving to slide 12, let's talk about the financial margin with clients. The net interest margin decreased by 80 basis points in this quarter, as you can see on the chart at the bottom of this page. The main impact came from the new overdraft loan regulation that took effect at the beginning of the year, R$600 million. The rest can be explained by the impact of the reduction in interest rates on our working capital and liabilities margins.

Here it’s worth mentioning that we took a very intentional decision not to try to compensate the impact of the overdraft cap by increasing our exposure to high-yield portfolios, as, therefore, bring additional to our balance sheet. Actually, we went the other way. If you take our exposure to credit cards and personal loans and aggregates, for example, it has decreased 3.4% this quarter given the scenario that came with this crisis with the benefits of the new model. we believe it was a good decision.

Slide 13 now, financial margin with market. The first quarter of the year has definitely not been a good quarter for our trading desks. On top of it, the decrease in interest rates also impacted the remuneration of our hedge positions and investments abroad.

On slide 14, commissions, fees and result from insurance operations. These revenues declined 8.2% quarter on quarter basically because we had an exceptionally good quarter by the end of last year. You see that on a yearly basis they increased 8.2%, the same 8.2%. When we look at the asset management and advisory services and brokerage lines, we see a decrease that is already partially explained by the effects of the current crisis, but then, on the other hand, still present a strong performance on a 12-month basis. Actually, you see our 12-month basis asset management grows 40.2% and investment banking 148.1%.

As you can see on the right side of the screen, from January 19th to March this year, we’ve held the top spot on the main rankings for investment banking placed in first on M&A and ECM both in Brazil and Latin America, and on DCM on our domestic market. And when we compare to our fee revenues on the first quarter of last year, this 8.2 decline becomes an 8.2 increase as on the negative side basically the acquiring results.

Here it's worth noting that the impact of the D+2 offer, which we extended to all our clients by the end of the year, did not exist back in the first quarter of last year.

Now on slide 15 we see the noninterest expenses. Expenses declined by 0.8 year on year, well below the 3.3% inflation over the same period. A very solid performance. It's important to highlight that the personnel and administrative expenses were reduced by more than 2% in the same period. As we discussed in the previous earnings calls, this is the result from a strategic management of costs and focus on efficiency. We see this as an ongoing process not a project with more positive results in the coming quarters.

It's important to highlight, though, that we haven't stopped investing heavily on the things that are most relevant for the future of our bank. On the past 12 months, we’ve hired additional 640 IT technicians and acquired Zup, a technology services provider that adds another 800 specialists.

All in all, we've managed to increase by 54% our technology development capacity between 2016 and 2019, and we are thickening this curve.l

Finally, this crisis is bringing daily lessons on how we can operate even more efficiently. We are positive that this will turn into additional benefits in the near future.

Now on slide 16, capital. We finished 2019 with a 14.4 Tier 1 capital ratio. We paid dividends on 19 results by the beginning of March this year, which caused the ratio to decrease 1.1 percentage points. Other effects that negatively affected this ratio were: a mark-to-market of securities; tax credits; and our RWA growth. These last 2 were impacted by foreign exchange variation either through the tax effect of the overhedge of our investments abroad or through the high in risk-weighted assets.

Finally, the first quarter results came in lower than initially forecasted. On the other hand, the same exchange rate variation has partially compensated these negative impacts in evaluation of our dollar-denomination additional Tier 1 capital.

Lastly, we've announced we've also issued 700 million AT1 bond with a very good timing, right before the crisis broke out, totaling a 12% Tier 1 capital ratio at the end of March 2020. I'd like to mention that we run stress tests on a weekly basis and even on scenarios with the US dollar running at higher levels, our capital base and to absorb the impacts.

Moving to slide 17, here we find a table with different estimates of 2020 GDP in Brazil. We devised this table to portray what the GDP should be according to when social distancing measures begin to unwind and how fast the economic activity resumes afterwards. Naturally, the longer it takes for the lockdown to start the ease, the greater the economic impact it has.

We see the scenarios on the left of the table as more likely to happen when we built our loan loss provisions among many other variables. As you can see, we are facing a moment of extreme uncertainty on the macroeconomic conditions and so the range of estimates we get is quite wide.

Moving to this last slide now, in perspectives. So due to low visibility and uncertainty about the extension and depth of the social and economic impacts of this current crisis, the 2020 forecast previously disclosed during our fourth quarter earnings release has been suspended. Nevertheless, I'd like to point out that the financial margin with clients, noninterest expenses, credit portfolio and fee income ended the first quarter of this year in line or better than the guidance which we have provided previously.

We understand, however, that it is prudent not to disclose new forecasts at this time until it is possible to estimate the impacts and the extent of the current situation in the company's operations more accurately.

Nevertheless, I'd like to share with you the main perspectives for our business: First, capital and liquidity should remain at appropriate levels considering our internal stress test scenarios; regarding the credit portfolio, the main factors that will drive its growth in the short and medium terms will be the greater participation of the corporate banking portfolio, lower demand from individuals and relatively high volume of renegotiations; we believe the financial margin with clients will grow around the credit portfolio growth; commission, fees and results from insurance will remain under pressure due to lower economic activity and absent capital markets; the cost of credit and balance of loan loss provision according to the expected loss provisioning model will be adjusted whenever there are substantial changes in the macroeconomic scenario and in the financial situation of the clients; and we maintain our commitments to nominally reduce noninterest expenses, reflecting a diligent and strategic cost management, the investments made in technology, the impact of lower economic activity in our variable costs and the benefits of the new model of remote work and service.

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

Question and Answer Session

Operator: Thank you. Ladies and gentlemen, we will now begin the question-and-answer session. If you have a question, please press the star key followed by 1 on your touchtone phone now. The questions will be limited to 2 per participant.

If at any time you would like to remove yourself from the questioning queue, press star 2.

Today's first question comes from Jason Mollin, with Scotia Bank. Please, go ahead.

Mr. Mollin: Hello, thank you for the opportunity to ask question. I just wanted to follow up a little bit on the information you provided on the business model slide, I think slide 22, where you are comparing the recurring net income from credit trading, insurance and services and excess capital. So I don't think it's surprising with the cost of credit that you booked over R$10 billion this quarter that you are showing negative value creation. It is interesting you are showing recurring net income of 0 in the credit segment.

If you can talk about, we've seen this in the past in the last recession when you talked about this and how difficult it is to monetize products to make money in this environment even more so, but I was looking at this more from the cost of equity that you're looking at of high segments to kind of understand how you are calculating this value creation. Thank you.

Mr. Bracher: Thank you, Jason. If I got your question, right, I mean, you are asking basically about in terms of value creation, which cost of capital we are using, right?

Mr. Mollin: Correct.

Mr. Bracher: We define our cost of capital on monthly meetings with risk committee of the Board of the bank, and we follow, to be precise, 4 different formulas which provide a trend and then we set etv. Before the crisis broke out, we were at 12%. Right after the crisis, we have tightened the level to 12.5 and we are already on our way to go into 13% on this cost capital.

This despite foreseeing a significant reduction in interest rates, both internationally and in Brazil. But, I mean, looking at the other sectors of the risk involved in the transactions, we felt that it was adequate to have a higher cost of capital.

Mr. Mollin: That's helpful. As a second question, if you could comment on the capitalization at the consolidated level. You mentioned and your presentation shows the decrease in the implications or the increase in the risk weighted assets tax credits. Another large impact was, of course, the payment of IOC and dividends.

If you could talk about that dynamic, clearly you have a minimum in your bylaws, we've seen banks do write-offing if needed to enhance capital. Is that something that we should think about in this environment? Obviously, you started from a very strong position of capital, but it's not where you typically (I think) would like it. So would that be an option, write-offing?

Mr. Bracher: No, at least we are not considering right now, Jason. I believe that this crisis so far has showed the adequacy of our establishing high minimum level of 13.5 as you know, and we have been constantly repeating.

The impacts… so this has allowed for us to absorb the very large impact of the crisis. Just to recapitulate, we had the impact of 69% dividend in IOC payout; we had smaller profits in this quarter; the RWA on credit, I mean, both because of growth of the portfolio and because of the foreign exchange changed as to the impact of the foreign exchange in the overhedge strategy. So all this impacted and is responsible for bringing impact in our capital leverage from 14.4 to 12%.

On the other hand, we made a very timely issuance of AT1 as I mentioned, which also benefits from the dollar. But looking at these many factors, so looking forward, the dividend pressure will be way smaller, I mean, even according to Central Bank regulations now I cannot pay than 25% and the dividend payout would be certainly much lower in this year.

The growth of portfolio, I mean, it will grow according to demand and our ability to serve demand, but we are not seeing a tremendous increase in demand. There was a first wave of higher demand when large corporations were looking for liquidity at the onset of the crisis, but we have seen a tempering of this phenomenon and we see the demand as normal in corporations and companies, and in individuals definitely a reduced demand for credit.

And then, our overhedge policy and the policy of hedging our investments abroad this is something totally under our control. So if we feel the need or the convenience not to hedge anymore investments abroad in order to become less exposed to exchange rate variations impacts in our capital, it is something we can easily do. As I said, we are run weekly stress tests scenarios on capital and the main variable examined there is the exchange rate, and we can adapt to it.

So I believe that with the tools, with our toolkit, with a presence and toolkit, it will be quite possible to deal with the capital level of the bank.

Mr. Mollin: Very helpful, thank you.

Mr. Bracher: Thank you, Jason.

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

Mr. Labarta: Hi, good morning, Candido and everyone. Thank you for the call and the opportunity to ask questions. A couple of questions also. I guess interesting slide 17 where you show different expectations for the outlook for the economy and depending on the lockdown ends.

If you can maybe give some color what scenario you used to determine the provisions that you booked in the quarter. If you look at the cost of the credit 5,5%, you know, pretty higher than anything we've seen in the last 5 years and probably the crisis with the global financial crisis. If maybe give some color on what scenario you used to determine that.

And then, if we look back in 2016, the cost of credit peaked at 4.4 in the first quarter and then sort of gradually started to come down. I know it's very difficult to predict at this point, but just saying from where we are today, do you think this is similar scenario where we are today, where you booked all the provisions of fund and then maybe this can start to come down, or do you think the risks or even greater? Just at least to give some context on how that it could evolve from here given what you are seeing as of today. Thank you.

Mr. Bracher: Ok, Tito. Of course, this is more art than science this answer to you. We are living in a scenario with too many moving parts. Besides the variables which are in this table that we show on page 17, you could also add the amount of public support, fiscal support that comes into the economy will also have an impact. And then you can ask (or we do ask ourselves) if sudden spot on GDP has the same impact on companies as the fall on GDP like we had in 15-16, which were most gradual. We don't know the answer to that, so, I mean, we prefer to play a bit on the safe side.

Right now, when we look at the perspectives of the lockdown here in Brazil, our perspectives are not very optimistic. We have the contagion index still close to 3,7, which would indicate that the peak is not too close from us, so lockdown could be extended. And what with think is that the longer we have the lockdown, the slower the recovery will be because people will be poorer after the lockdown and companies will have suffered more.

So taking all this into account, we are very careful in saying that we have peaked in terms of provisions. I think, I mean, we have to observe very closely the evolution of the economy and the behavior of individuals and companies in the next quarters to evaluate how adequate the provisioning is.

Mr. Labarta: That's fair, thanks, Candido, I appreciate that. Maybe just one quick follow-up. Looking at the coverage ratio that you showed 239, it is a little bit below the peak we saw at 248 in 2018. I mean, do you feel comfortable with where that coverage ratio is today? Do you think you still need to increase that a bit further? Can you help us to think about how you think about your coverage ratio in today's environment?

Mr. Bracher: I think it will be natural to have a higher coverage ratio in this crisis because NPL 90s tend to be postponed with the policy of renegotiating credits. So if we take this effect into account, and it's just natural to rollover during the crisis, so the rolling over policy will be more intense in this crisis than it was in past ones.

So this reduces the denominator and so I don't think it will be too strange to see higher coverage ratios because of this phenomenon.

Mr. Labarta: Perfect, very helpful. Thank you, Candido.

Mr. Bracher: You're welcome.

Operator: Our next question comes from Mario Pierry, with Bank of America. Please, go ahead.

Mr. Pierry: Hi, good morning everybody, and thank you… Hello? Can you hear me?

Mr. Bracher: Yes, I can hear you.

Mr. Pierry: Okay, sorry about that. Good morning. Two questions from me as well. Candido, on slide number 3 you showed that 850,000 clients had already renegotiated their loans based on the several options you are offering to them. Can you just clarify to me what percentage of the clients that qualified then have already applied? How big is the balance of these loans that have been renegotiated in nominal terms and if these renegotiations were done through the end of March rather than through today? Just so that we have an idea here on how much more renegotiations we can have.

And my second question is related I think what you said on the outlook for NII going forward that it should grow in line with loans. However, as you mentioned, this is going to be loan growth driven by the wholesale sector and I would have expected them for you to have lower margin compared to the year ago. So I would have expected your NII to grow below your loan growth.

So can you just clarify that for me? Thank you.

Mr. Bracher: Okay, Mario. I will start by your second question. You are right to say that, I mean, the loan growth will be more… we expect it to be more on the large corporations than SMEs and individuals, so on smaller margins. But on the other hand, we expect the margin for larges corporations, the spread for large corporations to increase as we see reflected in the price of the bonds of these companies in the secondary market. So, it's an estimate, but I think that this increase will be able to compensate for the different mix in the portfolio.

Then, in the rollover, the amount of 850,000 clients have rolled over approximately R$30 billion in contracts. I don't know the exact percentage this represents of how much it was eligible too. What I can tell you is that on the first weeks we were having about 85% of people paying and not rolling over, and the rollover I remember having observed it was much smaller than what I would have guessed initially.

I think that this proportion tends to grow as time goes by and the lockdown persists.

Mr. Pierry: All right, thank you, Candido. Very clear. Thank you.

Mr. Bracher: Thank you, Mario.

Operator: And the next question comes from Tiago Batista, from UBS. Please, go ahead.

Mr. Batista: Hi guys. I have 2 questions. The first one is actually one about the deposits. The funding side of the bank, especially deposits, increased a lot in the 1Q. Can you explain a bit this movement to us, if this was a kind of flight to quality, if it was concentrated in the corporate side, retail? So only to explain a little bit this very strong performance of the deposit side.

And the second one, the second question is about the measures that Itaú and other banks took last month. So the first one, this one that you just answered Mario about the postponement of installments, do you believe it will be necessary to extend this type of grace period in commands?

And the second one about the 40-billion fund financed the paycheck of small companies. Can you give a view of how you are seeing this fund, if Itaú is really using it, if this 40 billion is enough, you need more money or less money from this fund?

Mr. Bracher: Okay, Thiago, thanks for your question. Let's go question by question. On the deposits and the way they've been growing, I must say that we had… before the onset of the crisis, we had already decided to increase our funding on direct fund. We were seeing a tendency in growth in portfolio that we would need more funding and we had already changed then, we were paying higher rates and stimulating our sales force in this direction. So it was a lucky move; when the crisis happened, we were already well-positioned.

And I think, yes, there is a movement here, I don’t know if you can call it a flight to quality, but you can certainly call it people becoming more conservative and looking for more conservative products and names. So, yes, this is how I see it, I mean, I see liquidity as not being an issue at all in this beginning of the crisis.

As to postponement of installments, I think it depends very much on the sector that the company is at. I think some sectors will have a faster recuperation than others, which may need a longer time to start selling again and starting to sell will take longer. So it will have to be seen (even in the retail) sector by sector and trying to understand each sector's specific needs and possibilities of recoveries. I mean, we may have sectors that will not recover and then it makes no sense to extend.

And your third question on the payroll fund at 40 billion, I think it's clear now that the 40 billion was an exaggeration in terms, I mean, the calculation was not correct. We are very actively doing this, I think it's a very, very interesting line for the company although we have to bear 15% of the risk at 0 spreads, I think it makes sense. These companies may have other debts, and it's interesting to keep them alive, and the payroll they pay, they pay to people who may be our clients too. They normally are our clients because we paid their wages, so it makes every sense to try to increase it.

We are having a performance in this line compared to the market (for the last figures we saw) we are around 33-34% market share in paying this line, which is more than the market share we have in payroll, I believe.

But the numbers are still lower, and there are basically 2 reasons why the demand is below potential here, and even potential would not be the 40 billion, I think. But for 2 reasons are: One, some companies are in arrears with the Social Security (INSS), so they don't qualify for the loan; and there is a trade-off, there is a string attached to this loan which is that the company may not fire anyone for 60 days, and some companies don't want to have this obligation so they have not been taking.

Mr. Batista: Yes, perfect. Thanks, Candido.

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

Mr. Elliott: Hello, thank you for taking the question. First, just a very quick clarification. The R$30 billion of loan balances could have been rolled over. What date was that as of? Was that as of March 31st or is that as of something more recent?

Mr. Bracher: More recent.

Mr. Elliott: Can you say which day?

Mr. Bracher: It's the last figure I have, Jeffrey, I don't know exactly which day, but it must not be more than one week old.

Mr. Elliott: Got it, thank you. And then a broader question. You talked about delivering on lower expenses and you've given a lot of examples on how the crisis is teaching you lessons on how to operate more efficiently, get people working from home, get account openings happening online. Can you give us a sense of how that changes your picture of what it looks like once we emerge from this and any sense of what those expense saves how large they might be? Thank you.

Mr. Bracher: Thanks for your question, Jeffrey. So I can talk many examples. So, I mean, we will be traveling more, we will be making fewer physical visits, we will probably be using less premises, lesser rental space. So there will be many effects like this which will help. Possibly we will realize that we may close more branches than we had anticipated, not this year specifically, but as a general rule because banks may become less necessary because people have been digitized more, I mean, there has been an acceleration in the digitalization process of people, and these are basic interventions.

I will ask Milton if he wants to complement on that because he currently runs this efficiency project.

Mr. Milton Maluhy Filho: I think, Candido, you mentioned quite all the opportunities that we have imagined here after this lockdown that we are seeing. Most of them comes from the home office, the facilities that Candido mentioned, we also see less trips for our employees, not only locally, but abroad, we see opportunities in the I would say the footprint of our branches, somehow more clients being digitalized and using our channels, digital channels, that are more efficient and which brings much less cost, much less people intervention.

So we see many opportunities and we are working on that to guarantee that after this strong lockdown we can take the opportunity to adapt our way of working in the way we are doing now. So there is a lot of things that we have learned throughout this process.

Mr. Elliott: Great. Thank you very much.

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

Mr. Gomez: Hi, good morning, Candido, and thank you for the call. I had a couple of…

Mr. Bracher: Good morning, Carlos.

Mr. Gomez: … Thank you. I had a couple of broader questions about how this is going to evolve, I mean, obviously you have a very large footprint in Brazil and outside, and as you mentioned, the trends are not necessarily good. Can you differentiate, are particular regions of Brazil that have you worried versus [unintelligible] or particular countries in which you operate that have you more concerned than others?

And my second question is more about the long transfers of the crisis. In 2008 and 2009 there was a transformational event in Brazil; you merged, Itaú Unibanco was created. Do you envision anything like that going forward as a consequence of this? Thank you.

Mr. Bracher: Thanks, Carlos, for your question. Commenting on the regions of Brazil, as you know, in Brazil the regions vary a lot. I think that the region which will suffer more from the crisis will be the Northeast, it is more dependent on tourism, it's more on the coast, so I don't have the exact figure of how much tourism accounts for the GDP of the Northeast, but it's certainly much more than in the Southeast region or in the Southern region of Brazil.

So, on the other hand, on the Northeast there are more public employees than in the other regions, and public employees will not be fired as opposed to employees on the private sector. So I don't have a very clear answer to give there, you know, we are concentrated on the Southeastern region of Brazil, which is the more industrialized, services are more intense, and we are the bulk of the GDP is made. And I think the GDP of this region will suffer about the same amount as the average GDP of Brazil.

As the perspectives of any consolidation because of the crisis, we are not seeing it, to be honest. I mean, there can always be small opportunities here and there of small businesses, but even that is not in the radar right now. I mean, we are too focused on the crisis itself and on helping our clients go through this.

Mr. Gomez: Thank you. And outside Brazil?

Mr. Bracher: Oh, sorry. Outside Brazil, maybe Milton you can explore outside Brazil?

Mr. Maluhy: Yes, outside Brazil, I think it's in the same line. We are always looking at opportunities abroad, but nowadays… I'm sorry, outside Brazil…

Mr. Gomez: Hello?

Mr. Maluhy: I think it's better now. Outside Brazil, we don't see any consolidation process as we speak. We are always open to new opportunities, of course, but in the countries where we are, we have a relevant position, we have the same agenda that we've been developing in Brazil, not only the cost efficiency agenda, but also the digital transformation.

So we are very comfortable with the footprint and the size we have now, but there is nothing under radar as we speak. We are always open, of course, but we don't see any consolidation process going forward.

Mr. Gomez: Okay, and then in terms of public health, are you more concerned about any of the countries in which you operate?

Mr. Maluhy: No, I think the countries where we are somehow started lockdown before we did, Brazil did. So we see Argentina and Colombia with a very strong lockdown since the very beginning, and when you look the figures in terms of the disease spread out and also the deaths, you don't see important figures in any of the countries where we are. They are all very behaved, I would say. So we don't have any specific concerns in any specific country.

Mr. Gomez: Thank you very much.

Operator: And the next question comes from Marcelo Telles, with Credit Suisse. Please, go ahead.

Mr. Telles: Hi, Candido. Thanks for the opportunity to ask questions. I have 2 questions. The first one, you know, regarding your information on your slide 8 about the exposure to the sectors that are most impacted by the crisis, I just wanted to try to reconcile that number with what you've seen as per the Central Bank stress tests.

I think you mentioned here on slide 8 I think your exposure is around 2.5% the more exposed the sectors in this crisis on your commercial portfolio, which I think it equates to R$18 billion or a little over 5% of your total commercial portfolio. But in the stress tests that the Central Bank provides for the system, you know, it talks about direct exposure to sectors affected by the COVID-19 to be something close to 30%.

So I was wondering if you could just help us reconcile why your exposure is so much smaller. I know on slide 8 it doesn't seem to have the entire exposure, but if you could share with us what are in your portfolio, what percentage of your portfolio is directly affected by the COVID-19? So if there is any relevant difference between your number and what will be implied by the Central Bank. How should we think about your potential credit losses in those segments?

And my second question, with regards to your provisioning, you had more capital than anybody else and that allowed you to [unintelligible] profitable, that allowed you to frontload provisions much more than your peers, and going forward, how should we think about your capacity to continue to frontload provisions? Is capital kind of the main restriction going forward? I mean, you are 10.2% CT1 ratio right now. Is there a level that we should think as kind of like the minimum you wanted to have going forward and therefore perhaps provisions would have to kind of… the amount of capital provisions would have to be enough not to go below that 10%? How should we think about your capital management policy on the provisions you are going to have to do in the coming quarters? Thank you.

Mr. Bracher: Okay. Fair question, Marcelo. Your first question, I don't have the numbers Central Bank said here. I can try to get them, and Renato can send them through e-mail, but what I can only imagine is that what we've shown here, this 2.4, it's 1.3 oil and gas, 0.9 tourism and leisure and 0.2 airlines. These are the most affected. But you have, for instance, nonfood retail is a sector which is affected. We don't mention it here because it's not along the most affected sectors.

So there are many others which will be affected, even auto industry, energy sector, sugar and ethanol sector, I mean, you would have to go the other way around; which are the sectors that are immune to COVID-19, and there are very few. So when we make our provisions, we are making our provisions in many different sectors. The sectors shown in page 8 are those sectors which clearly are the most affected. There are other sectors which are affected by COVID-19 and probably this is what explains the difference between the figure here and the figure in the Central Bank stress test study.

But I am not familiar, or I don't have this data on this study right now to comment on.

As to capital, I mean, in terms of capital, I have mentioned that looking forward we see that it's the ones have difficulties in managing capital in adequate levels. And as to further provisioning, we will provision as indicated by our model, expected loss model, and capital shall be enough for that, I mean, results and capital shall be enough for that. This is perfectly in our forecast, I mean, when we stress-test for provisions and so on. We don't face capital limitations in order to do this. I think there is enough space in our capital to do this.

Mr. Telles: So Candido, just a follow-up if I may. So if your model requires let's say much more provisions than what you have so far, and of course, for the record you are by far the most provisioned bank in Brazil right now, so if you had to go below 10%, that will not prevent you from making those provisions as per your model. Is that a fair assessment?

Mr. Bracher: No. The fair assessment is to make the necessary provisions. If we need more capital, we will see how to get it, if we will go below 10% or if we will have some other form of capital. This will be decided when and if. I don't think we will come to this situation.

Mr. Telles: Thank you, Candido. And just one final follow-up. Would you consider issuing any long-term debts in this environment maybe to strengthen your LCR, which is good (1,65%), but this is something that you would see down the road?

Mr. Bracher: Marcelo, looking forward, I mean, liquidity in our stress and so on is quite comfortable. I mean, we don't see a problem there, so we are not considering any issuances right now.

Mr. Telles: That's clear. Thank you, Candido.

Mr. Bracher: Thank you very much, Marcelo.

Operator: This concludes today's question-and-answer session. For your information, all questions received via the webcast today will be answered by the Investor Relations Department.

Mr. Bracher, at this time you may proceed with your closing statements.

Mr. Bracher: Okay. So I want to thank you all for your interest in this conference, for your very good questions. These were very different results from the ones we are used to showing, also the precision we can offer in our answers is not what we usually like to, and we attributed this to this very uncertain scenario we are all living.

We hope that in the next quarter things will be clear and the answers will be able to be more precise.

So, thank you very much for you interest.

Operator: Thank you. That concludes our Itaú Unibanco Holding earnings conference call for today. Thank you very much for your participation. You may now disconnect.