International Conference Call
Itaú Unibanco Holding S/A (ITUB3)
2Q21 Earnings Results
August 3rd, 2021

Operator: Good morning ladies and gentlemen, welcome to Itaú Unibanco Holding conference call to discuss 2021 Second Quarter Result.

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 asterisk 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.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. Milton Maluhy Filho,** CEO; **Alexsandro Broedel**, CFO, and **Renato Lulia Jacob**, Group Head of Investor Relations and Marketing Intelligence.

First, **Mr. Milton Maluhy** will comment on 2021 second 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. Milton Maluhy**.

Mr. Milton Maluhy: Well, good morning everyone, thank you for joining us in our second quarter 2021 earnings conference call.

Well, first of all, I would like to emphasize here the recurring managerial net income, we reached R$6.5 billion, which represents an increase of 2.3% versus the previous quarter. The recurring ROE increased 40 basis points in the quarter, and we finished with 18.9% this quarter. I would say and highlight, first of all, a growth of 4.6 of our Brazilian loan portfolios, the credit card book rebounded after a weak first quarter that was affected by the new wave of the pandemic, which translated into lower economic activity and consumption in the period. The payroll-linked loans accelerated and grew 5.5% in the quarter – we believe that this portfolio has a big growth potential, and I will talk about that a little bit further –, mortgage had another very strong performance in origination, which translated into 12.8, as you can see, growth. The strong credit portfolio translated into a more vigorous growth in the financial margin with clients as it increased 3.9% in the quarter. Credit quality metrics continued to boost very positive trends, the highlight was the NPL 90 days in Brazil, which ended the quarter at 3.6, it's a decrease of 30 basis points.

We also saw an important recovery of our fees and insurance revenues mainly driven by credit card issuance and capital markets activities – we will present more details throughout the presentation. Revenue growth coupled with our cost control brought our efficiency ratio in Brazil to 42.2%, it was a drop of 100 basis points and is the lowest level in years.

We added 4.7 million customers through our digital channels just this quarter, it's an important figure and it's an important growth when we compare to last quarter of this year, it was a growth of 27%. When we talk about ITI, the client acquisition continued to come at a strong pace, as we anticipated. We reached 7.8 million customers at the end of the quarter and the good news is that out of the 2.6 million customers we added in the quarter 90% didn't have a current account in the bank. We are attracting a young client base and customers that we were not successful engaging lately.

Moving to next slide, slide three, I will talk a little bit about our strategy in the retail business. First of all, I'd like to highlight that this is a project that we call *e-varejo 2030,* which is the most important and transformational one happening at the bank's retail unit, our commitment here is to completely change the customer experience by redefining the value proposition, this is being done across all retail segments from the traditional retail to our high-net worth segment (Personnalité), and we expect to have 3/4 already implemented by year-end and 100% of this by the end of 2022, so there is a good ambition here and we are evolving very fast implementing all the initiatives.

The project had already been under development for some time with a phase structure, but we are prioritizing the main deliveries already for this year. We expect to capture a relevant part of the project's value in the short and medium term, I will release more figures about this in the future, and we have the ambition to increase 4x the sales through digital channels by 2025, and this revenue should represent 50% of the total revenues of our retail operations.

We are reorganizing the in-person services unifying the commercial and operational teams while we are remodeling our brick-and-mortar branches creating the concept of hub and satellite branches and redefining the role of each branch in each micro region. All of this with the aim of creating a better experience and a simple journey for our customers.

We have already seen a positive impact of our strategy. I would like to share with you a few figures: we had a 23% increase in the number of accounts open over the last two years with 54% of new accounts being open 100% digitally; a greater penetration of credit products for these new customers; in the “phygital” and the omnichannel concept we have originated R$9 billion of business (we call here O-2-O, it's the online to offline connections), it is important to emphasize that this was entirely by choice of our customers as they could easily have completely the transactions entirely offline or online; 58% of the sale of new products to individuals were made through digital channels in the second quarter, as you can see; and the new investment advisor we aim to have by the end of 2022 more than 100 investment offices with over 1,500 investment specialists, a good part of the office will be established by the end of this year; and in the “phygital” concept we will bring a whole range of digital services and solutions even to the client of physical branches so they claim always have someone available, and this will complement the offer we have nowadays on our bricks-and-mortar branches.

We understand that the branch network is an important competitive advantage, and recent studies showed that countries where digitalization has advanced much more than here have a density of branches per 100,000 inhabitants greater than in Brazil, so we still believe there is a lot of room to create value to our clients through our physical branches.

Going through next the slide, I mentioned the growth we had in the quarter for this payroll-linked loan. What I would like to emphasize is that we have two main publics here, three main portfolios: what we call here INSS, it's a very relevant one, it's the pensioners public, we have the private public mainly coming from the payrolls we have from the corporate clients, and we also have the public market, which as you can see, is the lower segment, is the most irrelevant segment for us nowadays, but it's the most relevant segment in the market, and here we see a huge opportunity to grow the business.

As you can see, we won the bidding process to cater payroll services for the employees of state of Minas Gerais. If you look only the amount in reais they have in payroll loan, R$8 billion, is more than R$4.6 billion that we have outstanding. Just to give you a figure, when we look to the private and the pensioners public, we have around 25% of market share in both markets and we have less than 2% market share in the public market, and here is where we see an important place where we can grow the business and bring a very good portfolio and enhance the margin for the bank. So, huge opportunity here in this segment.

Moving to the next slide, I would like to share with you not only the quarterly evolution of our SME’s business, but also how this platform evolved throughout the last couple of years. As you know, it's a very broad segment that ranges from small companies that are served by our branch network, to medium sized companies that are served by our wholesale banking structure. We more than doubled the loan portfolio in the segment over the last four years, as you can see, we came out from a portfolio of R$60 billion to R$133 billion and we are the market leaders in Brazil. The client satisfaction also grew accordingly as NPS, the Net Promoter Score increased 20 points over the last two years and reached the mark of over 65 points. This is a result of a sustainable model focused on customer satisfaction.

We are also looking to offer products and services that go beyond traditional financial product seeking to create an ecosystem of partnerships to meet all the needs of our customers. In this context, we launched a platform there is roughly translated as My Business and in partnership Omie, a tech company that offers a best-in-class ERP solutions to SME's, we started to offer business management tool for our clients. Our ambition for 2025 is to grow their customer base by 50% and to increase the results of this segment by 70%.

Moving through next slide, talking about sustainable development agenda, two years ago, you remember, we launched a target of distributing, disbursing R$100 billion by 2025 in credit operations aimed at positive impact sectors, such as renewable energy, infrastructure, health, and education. A couple of weeks ago, we updated our ambition, and our goal is now to allocate R$400 billion to sustainable development by 2025. This involves not only credit operations, but all also the structure of operations in the capital market.

We have already structured R$14.3 billion in ESG labeled transactions in the capital markets with ESG seal and we have already granted almost R$110 billion to positive impact sectors as ESG retail products, for example.

Now moving to next slide, credit portfolio, some information I would like to share. First of all, our individual portfolio grew 7% in the quarter. As I mentioned at the beginning of this presentation, the credit card portfolio is already showing a good recovery with a growth of 6.7% in the quarter. Given our relevance in the product, this already indicates the good momentum of the country's economic activity. Personal loans growth was more modest at 1.2% in the quarter, but the most important thing is the dynamic within this portfolio, which is very important for the financial margin.

As you can see here in the lower right corner, we showed evolution of the average outstanding of each product that make up personal loans, personalized credit which contains a portion of loans that were reprofiled over the past year dropped 6.9% in the quarter while unsecured loans grew 15.6% in the quarter and it's already higher than last year. The average overdraft balance grew 3.4 in the quarter, but it's still almost 20% lower than in the same period of last year. We understand that both overdraft and unsecured loans clear loans have great growth potential and consequently shall continue with the positive trends of the coming quarters.

Payroll-linked loans and mortgage continued to display a strong performance as I previously mentioned, credit for SME grew 3.4% in the quarter, and large companies' portfolio grew 2.8% in the quarter and 10.6% in the last 12 months with a lot of emphasis of the corporate bond's portfolio, which is an alternative that our clients to use for their funding needs. Our loans in Latin America were negatively impacted by the FX variation with the sole reason behind the 11.7% decrease in the quarter. And the bank's total loan portfolio adjusted for FX variation grew 5% in this quarter and 13.8% year-over-year. This expressive performance was beyond what we originally forecast for 2021. In the beginning of the year, I'll tell you a little bit more when we go through the guidance.

Finally, I highlight once again the origination of the mortgage and vehicle financing portfolios, both products came in quite strong again with origination of R$12.3 and R$8.2 billion respectively in the period. As I mentioned last quarter, the NPS of mortgage portfolio was negatively impact as we were not ready for the unprecedent demand for our product, but we have since restructured the products operation and have already not only seen a significant 7 points global NPS improvement in just one quarter, but also, we reached 51 points in the mortgage transaction NPS score in June. The transaction NPS is important, and it measures the pulse of the operation almost in real time, and in this case, it already shows the improvements that we made, so we expect improvement in the global NPS with time.

When we look to vehicle financing, the NPS reached a very high level of 78 points, which demonstrates that we have a very well-structured operation focused on customer experience.

Moving to next slide, slide eight, the good news is that we have seen an inflection in the NIM, both in the consolidated figures and in Brazil. The core of NII accelerated this quarter as anticipated with an increase of R$600 million and this was due mainly to the growth in the average balance of our credit portfolio, by a richer credit mix, and also by a higher number of calendar days. These effects were partially offset by a reduction in the spread of some of our individual loans, basically due to widening of the interest curve and temporary delay in passing through this effect in our loan interest rates. This should be normalized in the coming quarters.

The remuneration of our working capital, as you can see, presented a small growth due to the higher interest rate, but it was partly offset by the reduction in the average balance as a result of the XPart spinoff.

Now moving to slide nine, talking about the financial margin with the market, it's important to say that we had a very good level in this quarter, R$2 billion, but it was a decrease when we compare to the outstanding performance, we had in the first quarter. This was basically due to the margin with the market of our other operations in Latin America, which returned to a more normalized level after extraordinary first quarter. As for the Brazilian margin with the market, we were able to reproduce the good performance seen in the beginning of the year.

Now moving to next slide, credit card, we repositioned our credit card shelf with a new campaign and portfolio simplification, one card for each type of client. As an example, Click is a credit card with no annual fee, but which offers the possibility for the customer to choose to access our rewards programs. If they want for their acquisition, for example, of another product, they can choose and pay separately. The Samsung card has been a sale success since it was launched with unique conditions for the acquisition of Samsung devices, and the credit card which has a level of customer satisfaction and user experience in line or even better than what we see from new competitors.

Just to give you a few figures, we issued 1.3 million cards in June alone, which means that we more than doubled card issuances when compared to March this year, and it's important to highlight that 75% of these cards were issued to non-current account holders. It's a very relevant number. 51% of the sales were made entirely through digital channels, the NPS, as you can see here, is at 69 points, our credit cards have a 60% market share in the most important digital wallets, like Google Pay, Samsung Pay and Apple Pay, and this is very relevant for the stickiness of the client in the long-term and for the lifetime value of the client as well. We reached 35.6 million credit cards and 30.6 million debt cards, it's a growth when compared to 2020, and also, it's important to highlight, as you can see in the chart here in the right corner, we grew 8.2% in the quarter in the transaction volume, but we see an important growth when compared to 2020, but don't forget – and I think no one will – that we had a very depressed base to compare in 2020.

Moving to the next slide, when we talk about fees and insurance, I would like to highlight a few topics. First of all, credit and debit, as I just mentioned, revenues grew 6% in the quarter mainly due to our card issuance operation. This is a result not only of the recovery of the economy activity, but also of a new positioning in the product, as I just mentioned in my previous slide. Asset management grew 5.9% in the quarter driven by better performance fees, we have had very strong quarters in investment banking with a growth of 12.3% in this quarter. it's worth mentioning that we included in this line our stake in XP Investimentos equity income, we do the gross up of the profit of XP.

As of May 31st, after the approval of this spinoff by the Federal Reserve, we no longer account for this equity income. So, in other words, we have a month less of this result in this quarter and the next quarter we will have the full effect.

Still in investment banking, we highlight our leadership position in all the operations products from M&A to an ECM equity capital market, as you can see on the right side of the charge. In ECM we beat our record with 38 operations in the first half of this year, in M&A we had a volume of R$145 billion and 23 operations in which we participated in the semester.

Now moving to next slide, talking about credit quality, it's important to mention that our credit quality KPI’s continued to paint a benign picture of our operations. Cost of credit grew in the quarter, but it's worth remembering that last quarter we had rating upgrade for some clients in large companies, which resulted in reversals of provisions in this segment, which were not repeated this quarter.

When we look to the NPL 15 to 90 days, I would like to draw your attention to the deterioration of the Latin portfolio NPL ratio. This is related to a specific exposure of a client in the region, but the risk is booked in Brazil. This operation is 100% provisioned on the portion not covered by guarantee. We currently don't have any concern with this exposure, nor we expect to have additional negative impacts on our PNL in the coming quarters.

It's worth noting that the short-term delinquency ratios of the individuals and SME's portfolios in Brazil showed important reductions in the quarter and the loan portfolio large companies continues under control at historical low levels. The 90 days NPL ratio continue to show good quality, especially individuals’ portfolio, where not only the 90 days NPL ratio continues to decrease and reached, as you can see, the lowest level in our history, but also the NPL formation of this portfolio showed a nominal decline in the period despite portfolio growth in recent quarters.

Now moving to slide 13, talking about noninterest expenses, well, the first quarter usually benefits from seasonal effects on personal expenses, so some growth is always expected in the second quarter. Naturally, this year was not different, and as a result, expanses in Brazil grew 1.2% in the quarter. It's important to highlight the 2.7 reduction in administrative expenses. When we look at the year-to-date performance, we observe that the expenses in Brazil grew 0.8% year-over-year despite the 8.3 accumulated inflation measured by the IPCA in the same period.

The negative trends in Latin America were largely due to the FX variation, all the banks have their own efficiency programs. Our efficiency ratio in Brazil reached 42.7, as I mentioned previously, which is the lowest level since 2015 and certainly one of the best in our history. Despite this good performance, we believe there is still a lot of opportunities for further improvement in our efficiency ratios not only due to our cost management, but also due to the potential for revenue growth.

Naturally, our continuous investments in technology are and will continue to be a great enabler of this agenda.

At the bottom, we segregate the bank's core costs and investments to show that we are not jeopardizing the bank's future. The objective is to accelerate investment in the bank's transformation, business franchise, digital transformation, and increased commercial strength. Expenses related to our investment grew around R$600 million in the semester, but a gain from our efficiency program more than offset this increase, and this is the dynamic we are pursuing. In the end, the increase in expenses was related to greater volume of transaction and business activity of the period.

In Latin America, as I said, this growth is entirely related to exchange rate variation. All of our operations in the region are carrying out, as I mentioned, their proficiency programs.

Moving through next slide, slide 14, I'd like to go a little bit further in our technology modernization program. For us, technology indicators are a consequence of a strategy to modernize our entire legacy. Our clients in migration project are not simply a copy and paste of our monolithic systems to put them on the cloud. Perhaps this could bring some short-term cost efficiency, but it's not the transformation that we are aiming at and it's not our objective here. Our journey is to modernize the bank's platform bringing a series of advantages in terms of efficiency and getting more agility in offering new products, services, and features.

Every time we say that X percent of our systems are in the cloud, please, understand that I mean that they are both modernized and in the cloud. This means moving away from the current monolithic system structure and moving towards a component size architecture based on microservices improving the time-to-market and while increasing the frequency of deployments of new features and updates.

There was a record breaking; 6,700 changes in the first semester alone, an increase of 151% against last year. As previously mentioned, our ambition is to have 50% of these 3,800 services modernized and on the cloud by the end of 2022. All of new products and platforms are both born this way, as was the case with Íon, as you can see here, ITI and the credit card, and Samsung credit cards, which already run in the cloud. Our Pix pipeline was also born in the cloud, our clients' transactions already represent 20% of all the volumes transactioned throughout Pix in Brazil with almost 100% availability. We had only a few minor issues until now.

Moving to next slide, talking about capital, we practically reached the level of the bank’s capital appetite with this 13.5 of Tier I capital, which was composed by 1.6% of AT1 and 11.9 of CETI.

Now moving to slide 16, we had – and this is the main message I would like to share with you, so sometimes we forget – the comparison base due to 2020, and I would like to share with you a view comparing the first semester of this year with the first semester of 2019. So, therefore, it's important to compare our current results.

Revenues rebounded and are already showing a good growth over 2019, and remembering that we had two main effects, negative effects or impacts throughout this period: one was due to the overdraft limitation in terms of rates we could charge from our clients; and the other one was the reduction on the interest rate in Brazil that impacts a few lines of business of the bank, so it has a negative impact as well even though we were able to rebound and to recover those losses throughout the period.

When we look to no interest expenses, it grew less than 1% despite the growth of our operation and the accumulated inflation of the period. This is even more explicit in our operation in Brazil, which had a 12.4 real reduction in expenses in the period when adjusted by the period’s inflation. This is resulted in better efficiency and higher our pre-tax net income, as you can see.

Now moving up to the last slide, I would highlight that due to the bank's performance in the first half of the year, better macroeconomic projections, and also as a result our best estimate for the second half of this year, we changed some our expectations for 2020 were the ranges were not a reflection of our estimates. We revised the loan portfolio guidance upwards, which is now growing between 8.5 to 11.5 in the consolidated book and growing between 12.5 to 15.5 in Brazil. Naturally, this brings a positive outlook for our financial margins with clients, but we understand that the original ranges still accommodate our basis scenario for the rest of the year.

We also increased the guidance for margin with the market, which is now from 6.5 to R$8 billion in the consolidated PNL and from 3.9 to R$5.4 billion in Brazil, and we also revised our credit cost expectation (in this case) downwards due to the good performance of the credit quality of our operations. I would like to emphasize in the credit side that those expectations here don't take into consideration any reversal or consumption of the provisions we made within COVID-19 last year, so that means that we are having a very strong performance in the portfolio as a whole. We also we still have the R$40 billion which is the reprofiled portfolio that we have in the balance sheet that requires caution and attention, but we have seen good figures since the beginning.

And also, I would like to highlight – and maybe it's a question there could arise –, when we look to the financial margin with clients, we haven't changed the guidance, but it's important to say that we have a 400 basis point range, from 3 to 7%, we were seeing something much closer to the bottom of the range when we were having the discussions, but now we see that we can deliver a financial margin with clients much closer to the top of the range; that means that the range still accommodates our best expectations in terms of margin with clients.

We see the coming quarters with a positive trend, and I believe we will be able to deliver this growth. We didn't change the guidance only because it still fits inside the range, we didn't want to make any cosmetical issue here if the range accommodates our best expectation. So, this is basically that.

So now, I will open for you for questions. Thank you very much.

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 one key on your touch tone phone now. The questions will be limited to two per participants. If at any time you would like to remove yourself from the questioning queue, please, press start two.

Our first question comes from Mario Pierry, with Bank of America. Please, go ahead.

Mario Pierry: Good morning, everybody. Congratulations on your results. Milton, I have two questions, and both of them are related then to your guidance. As you as you mentioned, right, you're now more comfortable with marginal clients growing closer to 6.5% for the year, but doing the math, right, it implies that your net interest income with clients has to average about R$18 billion in the second half of the year, this means growth of almost 15% year-on-year. So, can you give us why you feel so comfortable that you can grow at a much faster pace going forward? Is it because of the mix of your loan book is improving, is it because of high-rate environment, is it a combination? And is there any reason why you wouldn't be able to sustain such elevated growth going into next year? So, the first question is related to margins and, you know, why you're so comfortable with growth accelerating so much.

And then, the second question is on your expenses. You showed a slide where your expenses are growing 3.5% year-on-year in the first half of the year, and your guidance is for -2 to +2. So, you're already above your range, and you have, in the second half of the year, you have the salary negotiations with the Union in Brazil and normally we see increases of inflation +1 or inflation +2%, so that would imply the personal expenses in the second half of the year should be growing almost 10%. So, I would like to get more color then why you think that you can still meet your guidance for expenses. Thank you.

Milton Maluhy: Thank you, Mario. Thank, you good questions. Well, first of all, in terms of margin with clients, as you know, we had a period in the past of mainly (I would say) four to five quarters decline in the margin with client, in this last quarter we had an evolution in the margin with client, and in the previous quarter we were much more in line with the previous one, so that's where we stopped decreasing the margin with clients.

So, I think you went through part of the answer, which is the mix, which is relevant for this margin growth. As you see, last year we had a huge growth in the large corporate clients' segment and we had, I would say, a depressed growth on the retail portfolio, and this was self-inflicted somehow with the risk appetite throughout the pandemic. And also, we had a migration of our portfolio to we call the Travessia, which was the program that we made for our clients to go through the crisis, and that meant that we made important reliefs in terms of the rates we were charging from the client, and also, we gave much more time and terms for those clients to repay their debt. So, this had a huge impact in our margin as well.

So, I think there are two main effects here: one is the base of comparison because we had a depressed year last year in terms of margin with clients; this year we see a better growth in the retail and the SMEs even though we still are growing faster in the guaranteed products, as auto loans and also the mortgage, but we have been seen a good recovery of the clean credit since this quarter, we have a good expectation and we believe we can deliver a good and decent growth in the coming quarters.

So, I'm positive about the margin, that's why we didn't change here the range, but this is why I'm positioning in terms of geography that we should be closer to the top of the range, better than what we expected when we released the guidance. So, it's very important to have this in mind, this is our best expectation, we've been very active on the commercial areas, we've been very active on the retail side, and we have a good expectation that we are capable to deliver a good growth with good margins and good credit quality.

So, this is the assumption that we have today. I hope we deliver that, of course, but don't forget that we still have a range from 3 to 7, we hope to be much closer to the top of the range, but the range is there to accommodate if, somehow, we are not able to deliver that. So, that's why we still have a range for this figure, for this line.

And talking about the guidance of costs, it's important to say that the most relevant impact here that we had on the noninterest expenses was that the devaluation; that's why we delivered the 3.5%, when you look only Brazil 0.8. So, you're right that we have *dissídio*, that we have to recognize the inflation and even more on the negotiations that we have with the Union, but it's important to say that we keep very straight here, very focused in our efficiency program, so we do believe that we are able to deliver the guidance the way we are presenting here.

Of course that the FX may change or may bring some impact, but don't forget that when we look to our PNL of the bank, even if we have any negative effect of the devaluation in our cost, we have on the opposite side a good impact, a positive impact in our revenues, so the balance sheet of the bank net-net is positive in FX. So, I'm this considering somehow a little bit there FX planning that the core cost of the bank will reduce in the coming quarters, and we will keep efficiency agenda very, very strong considering that we have some bad wind coming, and this is our goal here to overcome those bad winds, I would say like that, OK? So, we're still positive that we can deliver the guidance for costs as well.

Mario Pierry: OK, Milton, very clear. Just if I can follow-up then on your loan mix, right. You expect faster growth in retail and SMEs, can you just give us the color of what you're expecting then if you breakdown your loan book between SMEs, retail, and large corporate what is the implied growth in each segment that you're forecasting?

Milton Maluhy: Mario, we usually don't deliver, I would say, guidance and the breakdown all our credit portfolio expectation. I think the figures you have you can see on a consolidated basis, I believe that we should see still an acceleration in the retail business, this is what we are seeing, and on the corporate it will depend on market conditions, especially on debt capital market, so we may be able to we put on book a few good credits in terms of credit quality and also in terms of return on capital, but we may be able to deliver and to sell to the market if there is a window of opportunity.

So, it's hard to give a good guidance on that. Let's see how the market and the volatility will be that we will face in the coming months. So, I'd say good pace on the retail and the pace on the wholesale will depend on market conditions.

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

Jorge Curi: Hi, good morning everyone and congrats on the great quarter. I have two questions, please. The first one is, again going back to the guidance on growth versus NII – and I guess I'll ask the question a different way –, your new guidance on loan growth 8.5% to 11.5% and you said you left the guidance for NII…

Milton Maluhy: Sustained.

Jorge Curi: … sustained as you thought that the range encompasses the numbers that you think are reasonable, so I'm assuming you're thinking maybe of 6.5%, which is high-end of the guidance. The part that's a bit odd – and I guess that's what I'm asking – is why would NII grow below credit growth in a year in which Selic rates are going up, which is going to help your asset sensitive balance sheet and your margins historically have moved roughly line with… have been more in line in direction of Selic and we're actually going to see pretty significant increase in Selic rate, not a modest one.

Second, you are growing you loan book quite rapidly, so you loan to asset ratio should improve year-on-year, and within loans we're growing in high-margin loans, credit cards are growing very rapidly, auto loans, SME loans, and so. It would seem that this is a year in which your NII should grow maybe faster than credit growth because of the things that I said. So, I wanted to understand what drives your existing guidance to be below that.

And then my second question, is your effective tax rate, your guidance 34.5 to 36.5, I wanted to see if you have a preliminary view on what the effective tax rate would look after the ongoing tax reform is approved based on what's on the paper now. Thank you.

Milton Maluhy: OK, thank you, Jorge, thank you for your compliments and thank you for your question. First of all, talking about the NIM, I'll give you some information that I'm pretty sure you know, but just to make sure that I'm giving you the whole spectrum of the answer.

First of all, we're looking here for the end of period growth, and you know, and we know that the average balance is the one that really makes the impact here for the financial margin with clients. So, separating the two effects here, talking about interest rate, yes, it's true that we should have an increase in Selic. Actually, our forecast for the year-end is to have a 7.5 Selic, but it doesn't benefit our PNL in the same way you will see the enhance or the increase in the interest rate, and this is due so the reason that we make hedge of those interest rates in a reasonable period of time, I would say 40 months, with monthly installment, there is a shape of this curve. But, well, having said that, that means that we'll get the benefit in that time, so in the short-term we won't see a huge impact, but, yes, for 2022 we might have a much higher impact than we'll see in 2021 due to the profile of the hedge that we have. This is for the working capital, this is for the liabilities that we have, the investments from clients, and the overhedge run-off, so we won't see major impact here in interest rate for this reason. So, this is part of the answer.

The second one is that, yes, we are growing here in a mix which is better than what we were seeing last year, more retail than wholesale somehow, but on the retail, we're still growing business in some portfolios that don't have the same margin as the credit loans, for instance. So, if we do a breakdown in our portfolio, you will see the SMEs bring us a very good financial margin, then you have credit cards with a very strong financial margin, the personal loans as well, and then vehicles and payroll loans, even though they have important growth, in terms of moving the needle in terms of margin, they bring a lower impact, which is relevant for this information as well.

So, the mix is positive, so I see a very positive trend, we don't believe we will be able to go through the range that we are seeing here, but we believe we should have a decent growth or increase in the financial margin with client due to the growth that we will see in those portfolios, especially the one coming from the retail side.

Jorge Curi: Thank you. And then my second question on the taxes. Thank you.

Milton Maluhy: Yes. On the tax is the following: we see, to simplify the math, we see that the interest on capital should have a negative impact, let's say around 6 to 7 points in the tax, and you have also the benefits, let's say, of 12.5 in regime of the interest rate, the income tax on profits. So, that means that we should benefit in the long-term 5 to 6 reduction in our effective rate I would say if we take both effects in consideration. 5 to 6 points is our main guess here, and now depends on the income that we will have. Of course, as higher the income, it's different impact because you reduce the benefits that you have from the interest on capital.

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

Tito Labarta: Hi, good morning, Milton, thank you for the call and taking my question. My question is on your fee income, your very strong performance there, your guidance stayed the same, I imagine mostly insurance continues to be weak. So, just to try to break that out a little bit, if we would just to look at just the fee income excluding insurance, which is doing well, any color you can give on how you think that will grow, and not just for this year, but given the competitive environment, which is the sort of a sustainable growth for fee income? And then, do you expect the recovery in insurance in the second half?

And then my second question is somewhat related, but thinking about your digital strategy, you mentioned earlier on the call that your branch networks still have competitive advantage, now EP has close to 8 million clients, and if you look at the valuation on some of the Fintechs out there based on clients you get, you know, you can get a high multiple for that. So, just wanted to think about the strategy, is the intention we can keep sort of EP, you know, inside Itaú, any intention to spin it off or do you want to kind of leverage the branch network and at the same time having a digital strategy combined? Just to think about best strategy given the competitive environment. Thank you.

Milton Maluhy: Well, Tito, thank you for your question. Coming from the fee income – I think I may address part of the answer to Jorge Curi as well, he mentioned the credit card portfolio –, it's worth to mention that when we see here the growth in the transaction of the credit card portfolio, we see that nowadays we have around 15% of the portfolio, of the full portfolio of credit card pay interest, the other 85 doesn't pay interest. That means that, even though we are growing the portfolio, the part that pays interest grows in the coming months, it is not automatically, so this of course doesn't help in the short-term the NIM, but it helps a lot the commission and insurance because it's here where we report the interchange, the annuity that we charge the clients, the fees that we charge the client, and also, we have here the cost of our loyalty program. Those are the three main impacts that we see here in commission and insurance.

So, the recovery on the credit card portfolio we will see in the portfolio that pays interest in the coming future, it's not in the short-term, and this is what really impacts the margin. So, just to clarify the topic for Jorge Curi as well.

So, talking about commission and insurance, where I see that we should have good delivery is in the credit card for the reasons I mentioned, we do believe that there is, I would say, hidden consumption that whenever the pandemic is in a better shape we may see a boom in consumption and this will have an important impact in our credit card business, and also, we are growing the business, right, we are delivering any issuing an important amount of credit cards every month, and this will help a lot on this commission line.

On the asset management, we expect a good semester, it will depend on volatility and our capability of delivering good results, so there is a lot of market risk implied, but we are growing what we call the portfolio that really generates performance fees, and this has been a movement that we've been doing for the last years and we are having a good delivery. Nowadays, we have more than R$60 billion of products that generate alpha and where we can charge for performance fees, and we are having a very decent quarter and we expect we should have for the coming ones delivering on performance fees as well.

What has been very, very active for us is the investment banking activity. The main topic here is how the volatility in the second semester will be. If things continue the way we've seen in the first one, we hope that we should still have a good window of opportunity and should keep delivering good results in the investment banking area. Remembering that we have a very, very strong pipeline and we are very well-positioned in this segment.

So, those are the lines that I believe, so it's not different from what we see this quarter, this is the expectation I have for the coming quarters as well. so, is from there that we should see a good activity and a good performance.

Tito Labarta: Thanks, Milton. I guess maybe just to clarify that. So, when you say similar to this quarter, fees can remain stable, or this is like a base, and you can grow from this base from here?

Milton Maluhy: It's difficult to say if we can grow. In credit card I think we still have room to grow, in investment banking I think we had a fantastic quarter, so if we are able to deliver another quarter like this, would be good news due to the great performance that we had. In the asset management, we may be able to deliver a little bit better than what we had. But, as you see, we are still growing year-on-year and quarter-on-quarter, so I think we should be delivering something around the numbers you are seeing here, a little bit more, a little bit less, but the performance very similar to what we saw this quarter.

This is our expectation, it is related to market risk, it's difficult to make any estimation, but it's my best guess looking at the figures now and trying to project the future.

On the insurance side, as you asked, the losses we had due to the Covid, we believe that should decrease in the coming quarters a little bit, so the result on insurance should be better than what we saw this quarter. This is our best expectation as well, but we have to see if there is really this reduction, but still working on higher levels of losses due to the Covid. So, this is something that we have to keep focusing and following to make sure that we will be able to deliver a better result.

Structurally speaking, we are doing an important change, including management, on the insurance business. We have higher expectations that we can grow the business in the coming years. I'm not sure that we're going to deliver these coming quarters, but you may see in the coming quarters a positive trend.

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

Jeffrey Elliott: Hello, thank you very much for taking the question. When we contrast you with some of the competitors, something that really stands out is your headcount has been pretty stable, maybe slightly higher over the last few quarters, whereas some of the others have chosen to make pretty significant headcount reductions and I guess realize expense saves in the near term as a result. What's behind your strategy and what would it take for you to rethink that and get more aggressive on bringing headcount countdown?

Milton Maluhy: Hey, Jeffrey! Thank you for your questions. It's a very, I would say, simple answer. We have separate here what we call the bank's headcount and also the technology's headcount. When you look coming two years from now, we almost doubled the size of the team of technology, we have 13,000 employees nowadays, we grew 83% in this period. So, what we have been doing is: we are investing in technology a lot, we have 13,000 people working in technology and this is due to the modernization we're doing in the platform, all the investments and enhancement of the way we approach to technology, so this is a huge investment. We acquired Zup (the technology company) last year, we had the Central Bank approval, we more than doubled Zup since it arrived in the bank, so we are making huge investments here and this is very important to deliver a much more digital company in the future. This is the way we are approaching.

When you look to headcount X-technology, you will see a reduction in the last years, in the past years, and also you will see something more stable this year, and this is due to the crisis, to the capability we have to accommodate everybody working in home office, so on and so forth.

But you are right, we don't see, when we go to June 2020 – just to give you a figure –, only in Brazil we had 74,000 employees, two years later, one year later, we have 2,000 less employees, we have 72,600 employees in Brazil, so we reduced 2,000 employees. But in the other hand, we grew technology from 10,000 to 13,000 looking only one year. So, exactly what is happening is: we are investing in technology, growing the teams, but reducing the headcount of the bank, and somehow, the investment in technology brings the opportunity to enhance the productivity, to reduce some process that are completely manual. So, this is the pace.

More important than headcount, which is an important quantity, is how we are approaching cost as a whole. So, the program is delivering very good result as you can see, R$800 million only this semester when compared to last semester of last year, and the efficiency ratio is improving. So, headcount is an important information, of course, but the mix of the headcount, where we are investing, and how it's affecting our investments as well because we are growing some commercial teams, so we are reducing in the core areas, but we are investing and enhancing commercial teams, the investors' assessors, the investors, we are increasing the retail, the insurance commercial force, we are enhancing the Agri business, we are enhancing headcount.

So, we have to understand internally the mix of this headcount. But we are confident that we are in the right way.

Jeffrey Elliott: That growth in technology headcount clearly [unintelligible] over the last few years, I guess you're always going to need tech people, but we are reaching a point where that growth can start to slow down a bit now.

Milton Maluhy: Yes, sure, sure, for sure. I completely agree with you, Jeffrey. I think we are getting to a point that we should expect a slowdown. We have, of course, to manage all this people, we have to have projects, we need to have modernized platforms where they can have more flexibility to work, less dependences into the journeys. So, you're right, I don't expect to keep growing the headcount in technology, I think we are getting to a point where we should see some flattish movement, but are we still studying for 2022, I don't want to give you information and then need to change in the coming months, but my expectation is that the acceleration will be much, much lower than what we've seen in the past years.

Operator: Our next question comes from Tiago Batista, with Banco UBS. Please, go ahead.

Tiago Batista: Yeah, hi, guys! My question is about the cost of risk of the bank in next coming years. When we look at the cost of risk now, I would say, is much lower than in the past. Do you believe that this reduction in the cost of risk is a structural reduction, and we probably will see cost of risk below the historical figures in coming years, or no, after the normalization of the economy, at the end of the emergency aid in Brazil we tend to see cost risk increasing going forward?

Milton Maluhy: Yeah, Tiago, thank you, good question. We should see an increase in cost of credit in the coming quarters. This is our best expectation. This is due to many reasons: first of all, it's the growth of the portfolio, and as you know, we work with expected losses provisions, so this means that we are always anticipating provisioning when we are growing strongly the portfolio as we are; also, there's some uncertainty, we have the R$40 billion, as I'm saying, the reprofile portfolio we have to follow very close to understand what will be the behavior of this portfolio in the coming quarters when you should have less benefits coming from the government, those corona vouchers, Bolsa Família. Let's see where it will be stabilized. So, this should bring an important impact.

But the key message here for you is that even though we believe that the cost of credit should increase on nominal basis and also on a relative basis growing the portfolio, it should stabilize, as we are seeing, in levels behind the pre-crisis levels. So, this is our main view over here.

So, I believe that second and third quarter of last year should make an inflection and we should be stabilized in levels behind the pre-Covid crisis, which is good news and very healthy, we should be delivering more margin with a very well-behaved credit risk, credit cost.

Tiago Batista: Very clear, Milton.

Milton Maluhy: Thank, Tiago.

Operator: Our next question comes from Natalia Corfield, with JP Morgan. Please, go ahead.

Natalia Corfield: Hi everybody! Thanks for taking my question. My question is related to your AT1s. One of them with a call date at the end of next year and another one it is a call date at the beginning of 2023, and I am wondering how you think about those calls. And also, you have an instrument in the local market, which I'm not 100% sure when the call is going to be, but I'd like to know as well how you're thinking about this call. This is my question, thank you.

Milton Maluhy: Hi, Natalia, thank you for your question. Good to talk to you. Natalia, just to give you… in treasury, we are making our capital planning, we are always looking for those calls, you have the call date, but you also have the opportunity to exercise this call later. So, we are always seeing the cost and the opportunity that we have to exercise the call vis-à-vis the capital needs that we have, or we need to grow the business. This is for local and offshore debt.

So, I cannot anticipate what's our decision now, but we are doing our capital planning and making some math here to understand what is the best instrument in terms of capital, if it's needed or if it makes sense to exercise the call, but I don't have the answer for you right now, this is something that our treasury guys are working in, so if you want to talk to them as well, feel free, we can give you more detail about that.

Natalia Corfield: OK, sounds good. And perhaps on insurance, if you have an update on issuance in the international. Any plans?

Milton Maluhy: No, really it depends on market conditions, Natalia. We are always looking. We saw some opportunities in the past to issue locally and we did a pretty decent amount locally. When we saw an opportunity – and we did last year, the very beginning of first quarter –, we did a very good issuance, it was a very good moment to do that right before the crisis jumped in, so I think we had a very good opportunity to price a deal. So, we are always looking to market conditions.

As you can see, in the AT1 we are fully loaded, so we don't have a lot of room, in fact, we are a little bit above what would be the limits that we have from the regulators. So, I don't expect… what maybe we should do in the coming months is some liability management, some discussions on that, some senior notes or maybe Tier II, but then we will decide if it's better to do locally or sure will depend on market conditions. Of course, we want to have an external curve, we want to be active in the external market as well, to be next to the investors, but it will depend on market conditions pretty much.

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

Carlos Gomez: Hello, good morning and thank you for taking the questions. Two brief ones. One, on the tax rate, if the 1.3-billion extraordinary uptake for the [unintelligible] that prefers only to the coming six months and therefore we should not expect a reversal in the next two quarters from now?

And the second one refers to your TPVs. I get [unintelligible] about 26% of earnings so far. What do you expect for the rest of the year? Thank you.

Milton Maluhy: OK, Carlos. Good to talk to you, thank you for your question. First of all, in terms of the R$1.3 billion, what we did is: what were the expectations, our expectations, in terms of tax payment in this semester because this increase in social contribution in 5% would impact only six months? So, we had this recognition in no recurrent event of R$1.3 billion. Yes, we do expect to consume paying a higher effective rate in the coming months. So, I would say net-net, maybe a little bit negative, but it's not relevant at the end of the day. So, that's why we recognized this effect or this event now, and this is only related to our best expectation, what would be our tax income or tax payment in the semester, nothing more than that. So, very focused on this.

And the second, talking about dividend, we are provisioning, we’re still below or very close to our capital appetite, level of capital appetite of 13.5, so maybe I can answer in two ways here: we are delivering – and we expect to deliver – a better profit, so this will enhance naturally the payment of dividends as we are seeing as the guidance have implied a better second semester, this will increase naturally the dividend payment, but in terms of payout ratio, we’re still working with the 25% because we have to recover capital and we will keep the matrix that we provided to the market in the past years, where we will see the risk weighted assets and we'll see our profitability ratio, and this will be the result of the excess of capital of 13.5 will be distributing.

That means that we didn't change the policy, the idea of distributing the excess of 13.5 or the excess of our capital appetite, but more than that, more important is that increasing the profit of the bank we should have nominal basis, better payout in the coming dividend payments.

Carlos Gomez: Very clear. Thank you very much.

Milton Maluhy: Thank you, Carlos. Nice talking to you. Thank you very much.

Operator: This concludes today's question and answer session. Mr. Milton Maluhy, at this time you may proceed with your closing statements.

Milton Maluhy: Well, thank you everyone for joining us in our second quarter results. It’s a pleasure to be here with you, I hope to see you during this period, or we will meet again in the next quarter results.

We are very positive about all the evolution we had, especially the cultural change that we are doing inside the bank; this is the most, I would say, positive outcome that we are seeing here, so very positive about the numbers we have, and very confident about the future, of course, depending on macroeconomic conditions.

So, well, be safe, take care and hope we will see next time in a much better environment. Thank you very much, good to talk to you all. Bye-bye!

Operator: That does conclude our Itaú Unibanco Holding’s earnings conference for today. Thank you very much for your participation. You may now disconnect.