Q1 2020 Earnings Call

Company Participants

- Candido Botelho Bracher, Chief Executive Officer
- Milton Maluhy Filho, Vice President

Other Participants

- Carlos Gomez
- Geoffrey Elliott
- Jason Mollin
- Marcelo Telles
- Mario Pierry
- Thiago Batista
- Tito Labarta

Presentation

Operator

Good morning, ladies and gentlemen. Welcome to Itau Unibanco Holding Conference Call to discuss the 2020 First Quarter Results. 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. (Operator Instructions) As a reminder, this conference is being recorded and broadcast 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 the 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 on this conference call in Sao 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 results. Afterwards, management will be available for a question-and-answer session. It is now my pleasure to turn the call over to Mr.Candido Bracher.

Candido Botelho Bracher {BIO 3158644 <GO>}

Hi. Good morning, everyone, and thank you for taking the time to attend to our first earnings call of 2020. I hope you're 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 impacts 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 an extension are becoming more evident as days go by, but they are not yet completely clear. So I would like to use today's first three slides as a segue to the presentation we did on April 6, 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 step up and act proportionately to the role we have in Brazil as the largest financial institutions 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 of our workers from central administration, 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 have the support and peace of mind to focus all their attention to serve clients. So we announced some additional measures, some such as a firm-wide job security by suspending all terminations without cause and we also advanced the payment of the 13th salary. And so our teams are now tirelessly working on developing the best solutions to help our clients. We reinforced and we improved our digital channels, which are operating now at their highest historical availability level. And in the last weeks, account opening 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 the crisis. As I said before, we felt, we need to act proportionally to our relevance in the Brazilian society. And with this in mind, we launched an initiative called Todos pela Saude, everybody for health program.

We have donated BRL 1 billion specifically to this initiative and another BRL 300 million for scattered actions against the pandemic. And for Todos pela Saude, 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 elements. And we are inviting others to join us at this initiative.

If we 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 doubled it for individuals who were on time with their payments, and we have tripled it for small companies and we've reduced interest rates. On top of this, we are offering to extend the terms of the contract 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 had refinanced their loans under these terms of the offer. We have also announced several other initiatives in the past 30 days or so to extend benefits and exemptions for our clients to support the liquidity of small and medium-sized companies and their transition to the delivery sales model during the social distancing phase which we are going through.

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 increased 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 ratings. 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 fact that 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 clients 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 its impacts 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 decisive 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 know what we've end of the first quarter of 2020 with the a BRL 3.9 billion recurring net income and 12.8% ROE. Although we've had a good start of the year, especially in the first two months, this quarter's result already incorporate 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 from 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 with 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 at 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 reflection 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, this is origination. Even when considering only the first two 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 funding from clients, you see there in the bottom right of the page, as 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 where we have a high credit exposure by business line, client concentration and specialty 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 our expected loss provisioning model. So here we describe 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 on 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 statistical 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 and let's compared a very simplistic description of the engineering behind the model and 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 provisions. The total provisions rose from BRL 39.7 billion to BRL 47.1 billion, therefore a BRL 7.4 billion total increase. Out of which BRL 5.2 billion were due to some potential losses, considering expected impacts from the crisis on our clients with no delinquency on their debts.

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

Moving now to Slide 10, cost of credit, the result of what I just mentioned. An increase in our cost of credit during the quarter to BRL 10.1 billion, corresponding to 5.5% of our total credit portfolio and increaseing our coverage ratio by 10 percentage points to 239%.

On slide 11, still on credit quality. Here, we have a longer time series of provisions and that nonperforming loans so that you can see that we aim to describe that we have 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 the 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 BRL 600 million cash. The rest can be explained by the impact of the reduction in interest rates on our working capital and liabilities margin. 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 and therefore, bring additional growth to our balance sheet. Actually we went the other way. If you take our exposure to credit cards and personal loans in aggregate, for example, it has decreased 3.4% this quarter. Given the scenario that came with this crisis and with the benefit of hindsight we believe it was a good decision.

Slide 13 now, financial margin with the 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, commission, 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. Distributed 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 that on the other hand, still present a strong performance on a 12 months basis. Actually, you'll see in a 12 months basis asset management rose 40.2% and investment banking 148.1%.

As you can see on the right side of the screen from January '19 to March of this year, we've held the top spot on the main rankings for investment banking placing 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, having on the negative side basically the acquiring results. Here it's worth noting that the impact of the T plus two 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. Let's see the noninterest expense. 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 earning calls, this is the result from strategic management of costs and a focus on efficiency. We see this as an ongoing process, not a project with more positive results in the coming quarters.

Important to highlight though that we haven't stopped investing heavily on the things that are most relevant for the future of our bank. In the past 12 months, we've hired additional 640 IT technicians and acquired Zup, a technology services provider that adds another 800 specialties. All in all, we have managed to increase by 54% our technology development capacity between 2016 and 2019 and we are steepening this curve. 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 mark-to-market of securities, tax credit and RWA growth. These last two were impacted by foreign exchange variation, either through the tax effect of the over hedge of our investments abroad or through the high growth in credit risk weighted assets.

Finally, the first quarter result came in lower than initially forecasted. On the other hand, the same exchange rate variation has partially compensated this negative impacts through the valuation of our dollars denominated additional Tier 1 capital.

Lastly, we've also issued $700 million of AT1 bond with a very good timing, right before the crisis broke out, totaling at 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 dollar, the U.S. Dollar running at higher levels, our capital base can still absorb the impacts.

Moving to Slide 17. Here we find a table with different estimates of 2020 GDP in Brazil. We divised 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 to ease, the greater the economic impact it has. We see the scenarios to the left of the table as more likely to happen when we did our loan loss provisions among many other variables. As you can see, we're 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 on perspectives. So due to the 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 had provided previously. We understand however that it's 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 commitment 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.

Questions And Answers

Operator

(Question And Answer)

Thank you. (Operator Instructions) Today's first question comes from Jason Mollin with Scotiabank. Please go ahead.

Q - Jason Mollin {BIO 1888181 <GO>}

Hello. Thank you for the opportunity to ask question. I just wanted to follow up a little bit on the information you provide on the business model Slide 22 where you're 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 BRL 10 billion this quarter that you're showing negative value creation. It is interesting you're showing recurring net income of zero 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 some of the commoditized 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 by segment to kind of understand how you're calculating this value creation. Thank you.

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

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

Q - Jason Mollin {BIO 1888181 <GO>}

Correct.

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

We define our cost of capital on the monthly meetings with the risk committee of the board of the bank and we follow -- to be precise, we follow four different formulas we provided them and then we set the level of that. 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 going to 13% on this cost of capital. This despite foreseeing a significant reduction in interest rates, both internationally and in Brazil. But I mean when looking at the other factors of the risk involved in the transactions, we felt that it was adequate to have a higher cost of capital.

Q - Jason Mollin {BIO 1888181 <GO>}

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 of the risk -- the increase in the risk-weighted assets, the 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 rights offering 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, rights offering?

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

No, I don't. At least we're not considering having this right now, I believe that this crisis so far has shown the adequacy of our establishing a high minimum level of capital at 13.5% as you know and we have been constantly repeating. So this has allowed for us to absorb the very large impact of the crisis just to encapsulate. I mean we had the impact of a 69% dividend and IOC payout. We had a smaller profits in this first quarter. The RWA on credit I mean both because of growth of the portfolio and because of the foreign exchange change, also the impact of the foreign exchange in the over hedge strategy. So all this impacted and is responsible for the big impact in our capital level from 14.4% to 12%.

On the other hand just we made a very timely issuance of AT1, as I mentioned, which also benefited 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 we cannot pay more than 25%. I don't know how much the dividend payout will be, but certainly it will be much lower than last year.

The growth of portfolio, I mean, if you 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 tapering of this phenomena. And we can see the demand as normal in corporations and companies and in individuals definitely a reduced demand for credit.

And then, on our over hedge policy and the policy of hedging our investments abroad. This is something totally under our control. So I mean if we feel the need or the convenience not to hedge any more investments abroad in order to become less exposed to exchange rate variations impacts on our capital, this is something we can easily do. As I said, I mean we run weekly stress test 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 our present day toolkit, it will be quite possible to do with the capital level of the bank.

Q - Jason Mollin {BIO 1888181 <GO>}

Very helpful. Thank you, Candido.

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

Thank you, Jason.

Operator

Our next question comes from -- I'm sorry, our next question from Tito Labarta with Goldman Sachs. Please go ahead.

Q - Tito Labarta {BIO 20837559 <GO>}

Hi, good morning, everyone. Thank you for the call and absolutely I had 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 when the lockdown ends. If you can maybe give some color, what scenario are you using to -- that you use to determine the provisions that you booked in the quarter, right? If you look at the cost of credit, 5.5%, pretty higher than anything we've seen in the last five years and maybe can't get as high as with the global financial crisis. Maybe give some color on what scenario you used to determine that?

And then if we look back in 2016, right, the cost of credit, it 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 based on where we are today, do you think it's a similar scenario where we are today where you booked all of your provisions upfront? And then maybe this can start to come down or do you think the risks are even greater? Just at least to give some context on how that could evolve from here given what you're seeing as of today? Thank you.

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

Thank you, Tito. Of course, the is more art than science, this answer to you. We are living 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 and will also have an impact. And then you can ask or we do ask ourselves if a certain spot on GDP has the same impact on companies as the fall on GDP like we had in '15, '16 which was more gradual pace. 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 we think is that the longer that 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, I mean, the evolution of the economy and the behavior of individuals and companies in the next quarters to evaluate how adequate the provisioning is.

Q - Tito Labarta {BIO 20837559 <GO>}

No, that's fair. Thanks Candido. I appreciate that. Maybe just one quick follow-up on that. Looking at the coverage ratio where you showed 239%, 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? At least help us think about how you think about your coverage ratio in today's environment.

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

I think it will be natural to have a higher coverage ratio in this crisis because NPL 90 days tend to be postponed with the policy of renegotiating credits. So if we take this effect into account and it's just natural to roll over during the crisis. So I mean the rolling over policy will be more intense in this crisis than it was in past crisis. So this reduces the denominator and so I don't think it would be too strange to see higher coverage ratios because of this phenomenon.

Q - Tito Labarta {BIO 20837559 <GO>}

That's very helpful. Thank you, Candido.

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

You are welcome.

Operator

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

Q - Mario Pierry {BIO 1505554 <GO>}

Good morning, everybody and thank you. Hello. Can you hear me?

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

Yes, I can hear you.

Q - Mario Pierry {BIO 1505554 <GO>}

Okay. I'm sorry about that. Good morning. Two questions from me as well. On Slide #3 you show 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 qualify for these offers 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, right, this is going to be a loan growth driven by the wholesale sector and I would have expected then 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.

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

Okay Mario. I'll start by your second question. You're right to say that the loan growth will be more on -- we expect it to be more on the large corporation than SMEs and individual so only smaller margins. But on the other hand, we expect the margin for large corporations, especially for large corporations to increase as you 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 that 850,000 clients have rolled over, approximately BRL 30 billion in contracts. I don't know the exact percentage that this represents of how much was eligible to. What I can tell you is that on the first weeks, we were having about 85% of people paying and not for renewals. And the rollover was then I remember having observed that 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 loan then persists.

Q - Mario Pierry {BIO 1505554 <GO>}

All right. Thank you, Candido, very clear, thank you.

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

Thank you, Mario.

Operator

Our next question today comes from Thiago Batista with UBS. Please go ahead.

Q - Thiago Batista {BIO 15398695 <GO>}

Hi guys. I have two questions. The first one is about -- one about the deposits. The funding side of the bank, especially deposits increased a lot in 1Q. Can you explain a bit of this movement to us if this was a kind of flight to quality, it was concentrated in the corporate side, the 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 Itau and the other banks took in the last months. So the first one is the one that you just answered Mario about the postponement of installments. Do you believe it will be necessary to expand this type of grace period in coming months? And the second one about the BRL 40 billion fund to finance the paycheck of small companies. Can you give a view how you are seeing this fund if Itau is really using it, if this BRL 40 billion is enough? You need more money or less money from this fund?

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

Okay Thiago. Thanks for question. Let's go question by question. On 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 -- our direct funding. We were seeing a tendency in growth in portfolio that we would need more funding and we had already changed stance. We were paying higher rates and stimulating our sales force in this direction and so it was a lucky move and when the crisis happened, I mean, 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 that people becoming more conservative and looking for more conservative products and names.

So yes, this is how I see it and I see liquidity has not been an issue at all in this beginning of the crisis. As to postponement of installments, I think it depends very much on the sector 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 we're starting to sell will take longer. So it will have to be seen. Even in the retail, it will have to be seen sector-by-sector and trying to understand each sector specific needs and possibilities of recovery. So 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, the BRL 40 billion. I think it's clear now that the BRL 40 billion was an exaggeration. 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 a 15% of the risk at 0 spread 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 maybe our clients too. They normally are our clients, because we pay their wages. So it makes every sence to try to increase this. We are having a performance in this line compared to the marketer. For the last figure I saw, we are at about 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 two reasons why the demand is below potential here and even potential would not be the BRL 40 billion. But the two reasons are: one, some companies are in arrears with the social security, INSS. And 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 the loan

Q - Thiago Batista {BIO 15398695 <GO>}

Perfect. Thank you, Candido.

Operator

Our next question today comes from Geoffrey Elliott with Autonomous Research. Please go ahead.

Q - Geoffrey Elliott {BIO 15944940 <GO>}

Hello. Thank you for taking the question. First just a very quick clarification. The BRL 30 billion of loan balances that have been rolled over. What date was that as of? Was that as of March 31 or is that as of something more recent?

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

More recent.

Q - Geoffrey Elliott {BIO 15944940 <GO>}

Can you say which date?

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

It's the last figure I have Geoffrey. I don't know exactly which date, but it must not be more than one week or old.

Q - Geoffrey Elliott {BIO 15944940 <GO>}

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 Itau looks like once we emerge from this and any sense of what those expense saves, how large they might be? Thank you.

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

Thanks for your questions Geoffrey. So I can quote many examples. So we will be traveling more. We will be making less physical visits. We'll probably be using less premises, less rental space. So there will be many effects like this, I mean 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 branches may become less necessary, because people have been digitized more and there has been an acceleration in the digitization of process of people. I mean these are basically the initiatives. I will ask Milton if he wants to complement on that, because he personally runs the efficiency project.

A - Milton Maluhy Filho {BIO 15220856 <GO>}

Thank you, Candido. You mentioned quite all the opportunities that we have imagined here after this strong lockdown that we are seeing, most of them come 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. There are more efficiency,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 that's a lot of things that we have learned throughout this process.

Q - Geoffrey Elliott {BIO 15944940 <GO>}

Great. Thank you very much.

Operator

Your next question comes from Carlos Gomez with HSBC. Please go ahead.

Q - Carlos Gomez {BIO 15024854 <GO>}

Hi, good morning, Candido and thank you for the call. I have a couple of more long-term questions.

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

Good morning, Carlos.

Q - Carlos Gomez {BIO 15024854 <GO>}

Thank you. I had a couple of more long-term questions about how this is going to evolve. I mean you obviously have a very large footprint in Brazil and outside. And as you mentioned, the trends are not necessarily good. Can you differentiate, are there particular regions of Brazil that have you worried versus others or particular countries in which you operate that have you more concerned than others? And my second question is more about the long-term effects of the crisis. In 2008 and 2009, there was a transformational event in Brazil. You merged. Ita Unibanco was created. Do you envision anything like that going forward as a consequence of this? Thank you.

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

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's 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 and -- on the other hand, on the northeastern, 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 you there.

I mean we are concentrated on the southeastern region of Brazil, which is the more industrialized, the services are more intensive and where the bulk of the GDP is made and I think that the GDP of this region will suffer about the same amount as the average GDP of Brazil. As to perspectives of any consolidation because of the crisis, we are not seeing it to be honest. I mean there can always be I mean small opportunities here and there of small businesses, but even that is not in the radar right now and we are too focused on the crisis itself and on helping our clients go through this.

Q - Carlos Gomez {BIO 15024854 <GO>}

Thank you. And outside Brazil?

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

Sorry. Outside Brazil, maybe Milton can, it's for outside Brazil.

A - Milton Maluhy Filho {BIO 15220856 <GO>}

Yes. Outside Brazil, I think you'd see in the same part or the same line. We are always looking at opportunities abroad, but nowadays--

Q - Carlos Gomez {BIO 15024854 <GO>}

I'm sorry, outside Brazil.

A - Milton Maluhy Filho {BIO 15220856 <GO>}

Hello. Well, I think it's better now. Well, 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. So there is nothing in the radar as we speak. We are always open, of course, but we don't see any consolidation process going forward.

Q - Carlos Gomez {BIO 15024854 <GO>}

Okay. And in terms of public health, are you more concerned about any of countries in which you operate?

A - Milton Maluhy Filho {BIO 15220856 <GO>}

No, I think the countries where we are somehow we started the 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 death, you don't see reported figures in any of the countries where we are. All very behaved I would say. So we don't have any specific concern in any specific countries.

Q - Carlos Gomez {BIO 15024854 <GO>}

Thank you very much.

Operator

And our next question comes from Marcelo Telles with Credit Suisse. Please go ahead.

Q - Marcelo Telles {BIO 3560829 <GO>}

Hi Candido. Thanks for the opportunity to ask questions. I have two questions. The first one regarding the information you have in Slide 8 about the exposure to the sector that are most impacted by the crisis. I just want to try to reconcile that number with what we've seen in as for the Central Bank its stress test. I think you mentioned here on the Slide 8 I think your exposure is around 2.5%, the more exposed to sectors in this crisis on your commercial portfolio, which I think equates to BRL 18 billion or little over 5% of your total commercial portfolio.

But in this stress test that the Central Bank provides for the system, it talks about direct exposure to the 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 that on the Slide 8 doesn't seem to have the entire exposure. If you could share with us what are in your portfolio, what percentage of our portfolio is directly affected by the COVID-19? So if there's any relevant difference between your number and what would be implied by the Central Bank. And 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 right than anybody else that allowed you to again more profitable that allowed you to front-load provision much more than your peers. And going forward, how should we think about your capacity of to continue to front load those provision. Is capital kind of like the main restriction going forward. I mean, you are at 10.3% CET1 ratio right now. Is that 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 you can provision would have to be enough not to go below that 10%? How should we think about your capital management policy in light of the provisions you're going to have to do in the coming quarters? Thank you.

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

Okay. It's fair question Marcelo. Your first question, I don't have the numbers with the Central Bank study here. I can try to get them. I don't know if you can send them to me. But what I can only imagine is that what we've shown here, this 2.4% is 1.3% oil and gas; 0.9% tourism and leisure and 0.2 airlines. These are the most affected. But you have for instance, non-food retail is a sector which is affected. We don't mention it here, because it's not among the most affected sectors. So there are many other this year, which will be affected. Even auto, industry, energy sector, sugar and ethanol sector. I mean you would have to go the other way around, I mean, which are the sectors that are immune to COVID-19 and there are very, 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 study. But I'm not familiar or I don't have the data on the study right now to comment on.

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

Q - Marcelo Telles {BIO 3560829 <GO>}

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, I mean you are by far now 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?

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

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

Q - Marcelo Telles {BIO 3560829 <GO>}

Thank you, Candido. And just one final follow-up. Would you consider issuing any long-term debt in this environment maybe to strengthen your LCR which is good at 165%? But is that something that you'd see down the road?

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

Marcelo, looking forward, liquidity, and I must stress and so on is quite comfortable and we don't see a problem there. So we are not considering any issuances right now.

Q - Marcelo Telles {BIO 3560829 <GO>}

That's very clear. Thank you, Candido.

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

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.

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

Okay. So I want to thank you all for your interest in this conference, for the 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 attribute this, this very uncertain scenario we are all living. We hope that in next quarter things will be clear and the answers will be -- able to be more precise. So thank you very much for your interest.

Operator

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