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Company Participants

- Candido Bracher, President and CEO
- Milton Maluhy Filho, Chief Executive Officer

Other Participants

- Carlos Gomez-Lopez
- Geoffrey Elliot
- Geoffrey Elliott
- Jason Mollin
- Mario Pierry
- Thiago Batista
- Tito Labarta

Presentation

Operator

Good morning, ladies and gentlemen. Welcome to Itau Unibanco Holding Conference Call to discuss 2020 Fourth Quarter results.

At this time, all participants are in a listen-only mode. Later, we will conduct a question-and-answer session. (Operator Instructions) 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.

At the end of the conference call, please answer our event perception survey available through the QR code.

Before proceeding, let me mention that forward-looking statements are being made under the safe harbor and 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 Sao Paulo are Mr.Candido Bracher, current CEO and new Board Member; Milton Maluwe, CLO; current CFO and CRO and new Chief Executive Officer; Alexandro Bro Eldo, new CFO; and Renato Lulia Jacob, Group Head of Investor Relations and Marketing Intelligence. First, Mr.Candido Bracher will comment on 2020 fourth 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 Bracher {BIO 3158644 <GO>}

Good morning, everyone, and thank you for attending our 2020 fourth quarter earnings call. Before we get into the financial performance, I'd like to talk about some of the recent commercial, digital and ESG highlights from our operations.

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So, moving now to Slide 2. You can see that credit origination for individuals increased 15% in a single quarter. This strong origination led to an important growth in the loan portfolio, which was driven not only by a seasonally higher credit card loans, but also by the payroll, mortgage and car financing portfolios. It's also worth mentioning that the digital engagement with clients continues to improve. The digital client base reached 24.2 million, out of which 23 million are individuals. This represented an increase of 2.9 % in the fourth quarter alone. The higher digitalization of customers creates an opportunity to further optimize our retail footprint and led to the closure of 95 branches and client service points this quarter.

I'm also quite proud to report that our Employees Net Promoter Score reached the record mark of 89 points. In this criteria in 2020 as a valid result of our efforts to promote the best possible working environment. We have had to continually adapt during this challenging traffic. Last but not least, we improved our client net promoter score by 10 points over the course of the last two years, therefore, beating internal target for the team.

Now on Slide 3. We will shed some more light on some of our digitalization and technology is. We continue to constantly increase our investments in technology and expect to invest in 2021, price as much as we have invested in 2018. Not only that, but we have invested better. While our investments in developing new solutions and features for our digital platforms more than doubled in this period, we managed to decrease the expenses on infrastructure maintenance by 28%. Also, it is important to highlight that this resulted in a 25% reduction in the time to implement new solutions in the last 12 months. We also increased the number of features and services available for clients in the bank's digital platforms by over 80% in the same period.

The sanitary nature of subscribers has forced many of our customers to migrate their interactions with digital channels. However, the use of these channels continues to rise even after the end of more active period of social distancing. This behavior can also be seen in the opening of new digital accounts, which grew more than 200% over the past two weeks.

Another key part of our digital strategy is to strengthen our technology team. In this regard, we currently have 261 data scientists, which is possibly the largest contingent of these professionals in any company in the country. Moreover, throughout 2020, more than 3,700 employees through our technology team have been added directly and through the acquisition of ZUK.

On slide 4, I'd like to update you on the recent developments regarding the stake in system investments. As our focus on creating some shareholder value. Last November, we announced our intention to sell a portion of such stake in the company and later spin off the remaining part. As this in mind, in December 2020, we sold 4.5% of the capital of XP inc. And two days ago, the Extraordinary General Meeting approved the spin-off of the remaining stake into export, pending regulatory approval. I think it's important to highlight a couple of points. First, after the favorable opinion of the regulatory authority, there is up to 120 days for listing shares and between 10 for the distribution of new shares of export, the credit update will occur close to the listing of the company, which will be informed in due course. Lastly, when the new company is finally listed in the stock exchange, the shareholders will receive an equity holding in next part in the same amount, type and proportion as the shares they hold in the near term.

Slide 5. Now moving to our ESG highlights on Slide 5. I'm happy to report, we intensified our sustainability commitment in 2020 reinforcing the firm's social and environmental responsibility and its role in transforming society. As you all are well aware, Itau Unibanco and its controlling shareholders donated more than BRL1.2 billion to fight pandemic in the country. This formation was invested in research, acquisition of medical and protective equipment and awareness campaigns. We also launched the Amazon Plan in partnership with rabies on Santander. And out of the ten proposed initiatives, four were prioritized.

First, fighting against the legal deforestation in the big production chain. Here, we expect the producers engagement for traceability coffin direct and indirect supplies. Second is the stimulation of sustainable chains directing BRL100 million, which will be offered by the three banks to finance as the cultural industries and cooperatives that deal with sustainable cultures and branded finance for small processes. Third, is the promotion of bio-economy, whereby we expect to fund the certain projects that unlock the socioeconomic potential of new production chain. And fourth, land regularization and recommendation of how the financial system can support realization to stimulate economic activity in the region, legal, security, and economic activity. We also held and promoted the conference focused on the Amazon where we hosted more than 70 specialties. Companies and financial market participants, 12,000 spectators and donations for the pending of 380,000 fleets.

Lastly, I'd like to mention that since 2019, the bank has implemented the TCFD and SASB guidelines in its financial report and will further develop them in the coming years.

Now on Slide 6. I'd like to highlight that we recently issued a $500 million tier 2 sustainable bond. This issuance was the first of its kind in Latin America and was another step in integrating ESG into our business. To this end, we launched the sustainability finance framework, whereby we define the eligibility for the allocation of funds raised through debt securities with social and environmental criteria. The funds raise can be allocated into eight categories, which are in the slide. This operation is strongly connected to the positive impact commitments agenda in which we have financing targets related to sectors and the business covered by the frame.

On the bottom of the page, we highlight how we are performing in some of the financial commitments. We have already disbursed BRL47.7 billion to positive impact sectors, of which BRL12.5 billion were directed to renewable energy generation and sales. In the entrepreneurship agenda, we originally set an origination target of BRL9 billion to finance small companies led by women by 2024, but we ended up surpassing that mark well ahead of our expectations. There, we launched a new BRL11 billion credit target for this effort. Lastly. I'd like to invite you to check future updates of the positive impact commitment in our investor relations website.

On Slide 8, we move into our financial highlights. We ended the fourth quarter of 2020, with a recurring net income of BRL$5.4 billion resulting in an ROE of 16.1%. The 7.1% net income growth in this period was a direct result of a 4.5% reduction in the cost of credit in addition to the growth in fees and net interest income. These effects were partially offset by a seasonally higher non-interest expense. This seasonality will not affect the bank's structural expenses downward trend. Finally, the loan portfolio continues to show positive trends and grew 2.7% in the quarter. As usual, we will view each of these effects over the course of this presentation.

Starting with the loan portfolio, on Slide 9. I'd like to highlight some of the trends that can be seen on this page. The first is related to the credit portfolio, which continues to show an important recovery driven by clients' demand for quarterlized products with lower rates and lower risk, such as vehicle financing and mortgage. The latter had a record-breaking credit origination in the fourth quarter, which resulted in a growth of more than 130 % over the same period in 2019. After several quarters in our role of stability, payroll loans offered an important growth in the fourth quarter. This was mainly due to regulatory changes, which raised indebtedness feeding for retargets. Therefore, allowing them to access more funding through these products. Credit cards had a strong quarter as a result of a seasonally stronger demand due to the economic activity at the end of the year and holiday period.

We also observed a decrease in the personal loans portfolio, which is frequently the case during the fourth quarter of every year due to the payment of the 13th salary. We also observed a reduction in the personalized credit portfolio. This product is linked to our reprofiling loans program and this reduction trend highlights a better financial health of our clients.

The SMEs portfolio slowed down its growth pace due to lower origination of government-sponsored and guaranteed loan lines. As you may recall, those products were responsible for last

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quarter's impressive growth in this sector. Finally, the large companies credit portfolio grew by 1.6% in the quarter mainly due to the corporate securities portfolio.

Moving now to Slide 10. We show the fourth quarter -- that the fourth quarter proved to be an inflection point for the financial margin with clients. The 3% increase was driven by the continuous growth of the loan portfolio as well as by the higher average balance of the bank's own working capital and higher margins in our operations in Latin America. These effects were partially offset by the marginal reduction in spreads and by an additional change in the portfolio mix even though this latter effect was in a much smaller scale than in previous quarters and linked to seasonal effects such as the payment of the 13th salary, which naturally amortizes the balance of revolving credit lines. You can also see this dynamic when looking at the NIM, which is 20 basis points lower than the third quarter.

On Slide 11 now. We updated the figures from our reprofiling loans book. This portfolio finished 2020 with BRL15.8 billion portfolio, representing a reduction of 5% when compared to the third quarter. This reduction is due to lower demand from our customers as well as by a higher intensity of amortization, 96.1% of the portfolio is already outside the grace period. The NPL 15 to 90 days ratio reached 8.3%, an increase of 190 basis points when compared to the previous quarter. This increase was driven by two factors, the first of which is related to the end of the grace period for almost the entirety of the reprofiled loans work. The second refers to the arithmetic effect of the reduction of this portfolio's balance. The 90 days NPL ratios reached 5.2%, which is well below the short term delinquency ratio of the previous quarter. As we said in the previous quarter, the credit quality performance of this portfolio is better than we originally forecasted in the early days of the pandemic. It also seems that our strategy of offering clients more flexible payment terms is paying off utility.

On Slide 12 now, we'll delve into the credit quality of KPIs from our portfolio. The cost of credit decreased by 4.5% in the quarter, driven by an 11% reduction in allowance for loan losses in the same period in addition to the lower volume of discounts rented at the retail bank. These effects were partially offset by the increase of the impairment of corporate securities, which was mainly driven by a well-known large corporate client. While the provisions balance continues to grow, the coverage ratio reached 320%, down 19 percentage points in this quarter.

This reduction was a natural effect of the increase of the NPL balance that ended up consuming the coverage levels. The short-term NPL ratio declined by 10 basis points due to the good performance of the SBUs credit portfolio in Brazil. This performance was again partially offset by the expected increase in the 15 to 90 days NPL ratio from the SME portfolio. Despite the intensity of this deterioration, it is important to highlight that credit priority ratios were unnaturally lower than they should have been given the reprofiling loans program we launched in mid March 2020. Now, they basically have return to the pre-pandemic levels.

Finally, it is important to mention that when we exclude the effects of the reprofiled loans from the individuals and SMEs portfolio, there credit quality ratios are at our best historical levels.

Slide 13. We shows that the financial margin with the market reached BRL1.6 billion, representing an increase of 14.1% in the quarter. This performance is a result of higher gains in our banking book. The financial margin with market in our Chilean operation was also noteworthy with revenues boosted, the sales of securities and more volatility in interest and inflation rates.

Now on Slide 14, we show that the fees revenues grew 4.1% in the quarter. This performance is mainly explained by the higher volume of transactions in card issuance and acquisition, which were beyond what was seasonally expected as well as due to higher performance fees in our asset management and business line. These effects were offset by the investment banking and brokerage operations, which had a strong quarter, but not at the same level as the third quarter. Auto neutrality was the impact of the new first payment solution peaks. On current account fees. As we took this opportunity to exempt our clients to pay any fee in wire transfers despite of their preferred method. Insurance revenues fell by 14.5% in the quarter, basically due to the asymmetric effects of inflation rates and the remuneration of assets, liabilities in our private pension plant operation.

On slide 15, we show a 5.1 % growth in non-interest expenses in the quarter mainly due to seasonal effects related to a stronger economic activity, higher profit sharing, traditional year-end commercial campaigns and also due to the concentration of training and layoff expenses in the period. I'd like to highlight that the operational expense in 2020 contracted normally 3% in Brazil. This is even more impressive if we discount the effects of the impression in the period, which brings us to a real contraction of 7.6% in the period. Expenses from operations in Latin America grew by 13.6% in Reals in the year, basically due to the unfavorable exchange rate variation at the half

As we previously mentioned in the beginning of this presentation, the digitalization effort allowed us to close 94 brick-and-mortar branches and flying service points in the fourth quarter alone. This movement pressured our expenses efforts in the period, but in turn it should reduce OpEx in 2021. Last but not least, our workforce showed an increase of approximately 1,700 people. This growth is mainly due to our investments in technology. We hired 70,000 technology professionals -- 17-- 1,700, sorry, technology professionals in addition to the roughly 2,000 engineers that were added to our teams as a result of the Zoup acquisition.

Now on slide 16, we show that our Tier 1 Capital ratios had an increase of 80 basis points in the quarter finishing the period at 13.2%. This effect was mainly due to the higher net income as well as due to the sale of a part of the investments we held in Mexico investment.

Well with this, I finish my part in the presentation. And I officially complete my last task as CEO of the bank. This was a journey of four years and it gives me satisfaction and pride. And I'd like to thank you all investors and market analysts for our interactions and also for your support throughout this year.

I now pass the floor to Milton, our new CEO, so that he can set the expectations for 2021. Milton, good luck and success. I'm very happy to leave the bank in our hands -- in our able hands. You know that you can continue to count on my support now through the Board of Directors. All the best.

Milton Maluhy Filho {BIO 15220856 <GO>}

Thank you, Candido. Thank you for the kind words. Our meetings and discussions will be sorely missed, it will be a great challenge to succeed you, but it is with great pleasure that I received this role and responsibilities.

Before we discuss our expectations for 2021, I would like to spend a minute on Slide 18, talking about the recent changes that were implemented in our executive team. With the intention of being even closer to the business areas, we thought to simplify our structure and reduce one heretical level within the bank. So we doubled the size of our executive committee, which is now comprised of 12 people. Those are very seasoned executives who were previously in charge of relevant business units and other key areas of the firm. And we now have seven members of the Executive Committee focusing on commercial areas including the IT division as I consider them an integral part of our business.

New ways of working such as through communities have brought us, our business units and its IT even closer. The objective of this new structure is to gain more speed, to have more autonomy at the front desk, to better understand specific needs of each business areas and our clients and then we by maintaining our focus on the bank's growth. To conclude, I think it's not worthwhile to

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repay every structure, but I would like to draw your attention to the creation of the payment area which for us has a normal value.

Moving to the next slide. And before presenting our expectation for our operation, it's important to put the macroeconomic scenario in context. The past few months have shown an important recovery in Brazilian economy. Having said that, we are unfortunately still experiencing an increase in the infection numbers and fatalities throughout the country. This brings a high level of uncertainty to our macroeconomic forecasts. Among other factors, vaccination will be a key element in normalizing our lives and therefore restoring the country's economy. It's important to mention that the scenario presented herein assumes there will be no further delays in the immunization of the Brazilian population. We expect the GDP growth of 5% -- 4% in 2021. It's worth mentioning that these forces of this growth is basically a statistical carry from the last quarters of 2020.

We also expect an increase of the basic interest rate ending the year at 3.5% and that the inflation will remain under control and within the range defined by the Central Bank. Finally, we expect a stable unemployment rate, albeit still at a high level. Here it's important to give more context as we believe that permanent job creations will remain positive as seen throughout the second half of 2020. But this effect will be offset by a greater number of people looking for jobs due to the reduction of government and aid programs.

Moving to Slide 20, talking about the perspectives. We are presenting the perspectives for our operations that were the basis for this guidance for 2021. Therefore, we expect that on capital and liquidity, we believe we are at appropriate levels considering our internal stress test scenarios. Here, it's worth mentioning that our target of 13.5% for Tier 1 capital remains in force. And although we ended 2020 slightly below this level, we believe that over the first half of 2021, we will again meet or even exceed these targets. Expansion of the loan portfolio driven mainly by the individuals portfolio, assuming a recovery in the economy in line with our base scenario. At first, this growth should be supported by lower risk and lower interest rate products, such as payroll loans, mortgage and auto loans, but we expect demand for consumer credit lines and revolving lines to resume in the second half of the year.

Recovery of the average rate of financial margin with clients, the NIM, means over the year due to the progressive change in the credit portfolio mix between segments and the expectation of a higher interest rate and its impact on the remuneration of our capital and liability margin.

Now, it's important in growth. The gross debt, we will see in service and insurance revenues in line with the trend of recovery in economic activity, despite the negative impact resulting from peaks rollout, the Brazilian Central Bank fast payment solution, and also this spin-off and sale of this taking XP inc. Here, it's important to mention that last year, we had a full year of expenses to experience to make this. And this year, we only have one month in this guidance. So we are taking consideration, 11 months without XP in our figures, although we still need the fed approval for this transaction. Then the performance would be driven mainly by the expectation of strong activity in the capital market and the launch of new channels, products and services.

Progressive reduction in the cost of credit anchored in the bank's expected loss model and Brazil's economy recovery. However, the model will react promptly to relevant changes in the Brazilian macroeconomics scenario and the financial conditions of our customers.

Strategic cost management based on the structural efficiency projects will continue to bring benefits in the coming quarters with a nominal reduction in the ball business as usual operational expenses. This year we expect an increase of approximately BRL1.5 billion in our investments in technology, new products and commercial platforms, which should positively impact the bank's operational efficiency in the medium and long-term.

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Now moving to Slide 21. We present our guidance here. Due to the still high uncertainty of the macroeconomic scenario and its potential impact in the bank's operation, we decided to increase the range of projections for 3 to 4 percentage points. We now expect our growth for the loan portfolio between 5.5% and 9.5% in the consolidated figures and 8.5% and 12.5% in Brazil. For the financial margin with clients or NII, the expectation is for a growth of 2.5% to 6.5 % in the consolidated figures and 3% to 7% in Brazil. We expect the financial margin with the market to end the year between BRL4.5 billion and BRL6.5 billion -- BRL6.4 billion in the consolidated figures and between BRL3.3 billion and BRL4.8 billion in Brazil. For the cost of credit, the expectation is that, that our operation we want the year between BRL21.3 billion and BRL24.3 billion in the consolidated figures, and between BRL19 billion and BRL22 billion in Brazil. For fees and insurance revenues, our expectation is for growth between BRL2.5 billion and BRL6.5 billion in consolidated figures and in Brazil.

It's important to highlight here that we did not take into account any additional revenues coming from XP, as I mentioned, before from January this year as a result of this spin-off discussed on slide 4. As for our non-interest expenses, the expectation is for a nominal contraction on growth of 2%, both in the consolidated figures and in Brazil.

This range was a red built considering the higher investments in technology and in our commercial platforms as we mentioned on the previous slide.

Finally, the effective income tax and social contribution rate should end the year between 34.5% and 36.5% in the consolidated figures and between 34% and 36% in Brazil. We emphasize here once more that this guidance is based on the macroeconomic scenario that we have just present and any book to change in our expectations for the economy may lead to a complete revision of expectations for us in the period.

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

Questions And Answers

Operator

(Question And Answer)

Ladies and gentlemen, we will now begin the question-and-answer session. (Operator Instructions) Our first question comes from Mario Pierry with Bank of America. Please go ahead.

Q - Mario Pierry {BIO 1505554 <GO>}

Good morning, everybody. First of all, I wanted to congratulate, Candido, for all the work that you've done in the last few years, and all of the interaction that we had was very enriching for us. And I wanted to wish Milton here, good luck on the new role.

I have two questions both to mutant. Milton, when you look ahead, when you look over the next five years, what do you think are the biggest threats to the bank, especially, for the profitability of the bank? Is it regulation of all of these with the creation of open banking or the instant payments? Or is it a low rate environment? Or is the main source of concern related to the entrance of new players, especially, the fintechs, potentially the big tax?

And then my second question is a little bit more specific, when we look at your loan portfolio growth guidance in Brazil of 8.5% to 12.5%. This implies a very little real growth right, considering that you're forecasting nominal GDP growth of about 7.5%. So can you discuss why we wouldn't be able to see faster growth next year? It could be, because of the SME portfolio this year was inflated given all of the big government programs in place. So maybe if you can give us a

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breakdown of your loan growth expectations for 2021 broken down by individuals, SMEs and large corporates? I think that would be helpful. Thank you.

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

Thank you very much, Mario. Well, thank you for your words at the very beginning.

A - Candido Bracher {BIO 3158644 <GO>}

Thank you to you, Mario. Thank you very much.

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

First of all, talking about the challenges we see ahead, I think you parked a few points. We should be working in a different scenario with low rates. We've been seeing some movements in the market coming from competition and in a different lines of business. And in regulation, yes, we don't forecast what should be the implications of the open banking, but it's something that we should be very, very ardently cautious, but we should follow very close to understand what would be the impact.

We do believe that in a scenario of a low interest rates, a few revenues that we used to have that were major impact last year with those effects should maintain. We should grow the bank. This would be our view here, especially, on the credit side. And also we should be open to search or to create new lines of business for the bank as well. It's a different scenario. We do believe still in 2021, we still have challenge ahead, when we talk about the pandemic and all the effects it should have in the macro environment. But looking five years ahead, we still believe there is a positive trend and we hope this new macro, I would say, scenario keep for the long-term.

Talking about specifically, and I think we will be seeing an important digital transformation not only in the bank but in the customers. We've been working hard on that and this is something that should accelerate in the coming years. And we have to be very, very, I would say, transforming ourselves and working and moving forward towards this direction.

Talking about the loan portfolio, it's quite an easy answer I would say, because in one hand, we saw very, very important growth in the wholesale portfolio last year, above our budget including, because of the movements we saw from the big companies anticipating credit in the market to go throughout the crisis. And the capital market was closed for many months during last year, so the bank had to use the balance sheet to fulfill or to underwrite those transactions.

When I look -- we look for 2021, we still see an active dynamic on the retail portfolio different from what we saw last year. But on the other hand, we see that the wholesale growing much less than what it rolls, it grew last year. And also we expect to see a capital markets opening throughout the year, and this will impact, for sure, our capabilities to underwrite credit for the balance sheet part. We don't see it as a problem, because we are very active player in this market, and in terms of return on capital, the way to be more dynamic in terms of capital, its an important activity that we are very active on.

Q - Mario Pierry {BIO 1505554 <GO>}

That's very clear. Just a quick follow-up then on retail segments in terms of growth this year, what specific products are you most excited about?

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

Look, we believe that our secured loans seeing, when I mean secured loans, I'm talking about the mortgage, I'm talking about automotives, and I'm talking about what we say, which is the payroll loans. So basically those three lines we believe should improve a lot this year. But we will see some recovery of the personal loss as well. And credit cards due to the activity and more transaction and more consumption, we should see a growth as well. But we have been growing the secured part of the portfolio, just to give you a figure, 5 points in one year for the other work. So we have been growing to a more safe portfolio moving forward.

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Q - Mario Pierry {BIO 1505554 <GO>}

Great. Thank you very much.

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

Thank you.

Operator

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

Q - Tito Labarta {BIO 20837559 <GO>}

Hi, good morning. And also I echo that -- thank you, Candido, for your time as the CFO and best wishes on your new role and the Board and also congratulations Milton and best of luck in enroll as well. A couple of questions also. First just looking at the guidance overall, just kind of plugging in the midpoint on each of the number that -- getting to roughly a 17% ROE for the year. Just want to get your thoughts, if you think does that reasonable in terms of maybe sort of a longer term ROE. Do you think you can get back to the -- that 20% level? Or what do you think is sustainable? And how long it could take to get there?

And then second question, in terms of your expense growth guidance, right, roughly flat, down to 2% to plus 2%. Do you think you can continue to control expenses at around this level sort of beyond this year? You mentioned you called like 95 branches in the quarter. Just thinking given some of the pressures on the revenue side, how deep can you go on the cost cutting? And how that can help to offset some of these revenue pressures? Thank you.

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

Okay, Tito. Thank you very much for your questions. First of all, just to clarify the midpoint of the guidance. If you want to take the number, it's precisely a number should be around 17.6%, 17.7%, okay. Looking forward, what we are seeing looking forward, we are seeing a challenge. We have a profitability coming from the revenues and in a lot of pressure on the interest rate. When you work in an environment with a 3% of interest rate, we lose revenues on the working capital. And also we lose also for the deposits and the site deposits that we have within the bank. Those are the two major impacts.

So we do believe that as the cost of capital should be reducing in the coming years in an environment with a low interest rate, that our return on equity should be -- I'm not seeing the trains here for the coming year. So, this is a challenge. We're still working a lot on the efficient side. We still have room to work on it. We are opening space or a role for investment. This is our agenda. We still have opportunity here to keep reducing the business as usual -- as usual cost of the bank. But depending on the interest rate and the cost of capital, we are more focused here on creating value, generating value for our stakeholders. So the difference between the cost of capital and the interest rate here, and the return is for, what we are going to be very focused not specifically on the nominal return on equity, even though, we don't drive not -- neither for 2021, either for the future, the return on equity of the bank.

Q - Tito Labarta {BIO 20837559 <GO>}

Okay. Thank you, Milton. That's helpful. Just one quick follow-up then in terms of the 17.6% to 17.7% you mentioned at the midpoint. In terms of your dividend payout, should we be expect you to resume back to a normalized payout this year? Or what kind of payout should we expect?

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

Tito, can you repeat again, please? I couldn't listen to that.

Q - Tito Labarta {BIO 20837559 <GO>}

So, just on the midpoint the ROE, you mentioned 17.6%, 17.7%. Just what kind of dividend payout should we expect that you'll get back to normalized levels this year in terms of the payout? Or how should we think about the dividend? And also you're getting back to the core Tier 1 of like 13.5%?

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

Okay. Our -- the way we -- our policy here, it's to distribute everything that exceeds the 13.5%. This will keep, we won't change. But we also take in consideration, the coming 12 months, if we foresee any major investment or any needs of capital. So it's difficult to anticipate now. We're going to keep the same ratios on the table that we released to the market a few years ago, where we're going to be paying the -- what exceeds in terms of 13.5% depending on the risk weighted assets and the return on equity of the bank. So this -- the politics given the policy didn't change.

Q - Tito Labarta {BIO 20837559 <GO>}

Okay. So you go back to that normalized policy?

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

Yes.

Q - Tito Labarta {BIO 20837559 <GO>}

You don't expect any more restrictions?

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

We don't.

Q - Tito Labarta {BIO 20837559 <GO>}

Okay. Perfect. Thank you, Milton.

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

Thank you.

Operator

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

Q - Geoffrey Elliott {BIO 15944940 <GO>}

Well, hello. Thanks very much for taking the question and good luck to both of you with the next steps. There's been a lot of capital going into the digital banks in Brazil over the past few months. Nubank doing their Series G, clearly, an example of that, but plenty of others C6, Banco Inter have all been raising money. How does that capital going into the new banks change the competitive environment for you? Are you seeing any changes in their behavior that you need to respond to?

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

Okay, Geoffrey. Thank you very much for your question. Yes, as I've been saying, we've been seen a very dynamic and competitive environment. We've been seeing some fintechs, working some lines of business, where we've been seeing a lot of competition. I think it's the normal way for them to raise money is to do this kind of investments, those series of investments. So this is in the normal course of their business, until they access capital markets. We are a very accurate bank here. We have a very strong capital structure. And competition makes us better. This is the way we believe, and this is the way we've been working here for many years. So yes, we see a more dynamic environment. But it's fine. It's the way it is and we have to compete. And we are doing a lot of efforts internally to have, I would say, the capability to compete the best way possible and to grow the bank in the coming years. This is our focus.

Q - Geoffrey Elliott {BIO 15944940 <GO>}

And any particular product lines of business where you're seeing that competition changing?

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

Look, we've been seeing in the past year, there is a big competition on payments, especially, on the acquiring business. We released the figures. We saw a very strong competition there. I would say that we had a lot to learn. So what happened with hedging to avoid in movements like this in other lines of business, but it's a very dynamic market. We see a lot of competitions on the investments side and we are moving forward here to increase and to put effort in our commercial distribution not only the distribution but also the way we give the assessment to our clients, the way we provide products, the way we provide the apps that they will interact with the bank. So investments and payments are more focused on the acquiring. We've seen a lot of competition.

On the credit card business, we see companies coming into this market, as you just mentioned. But we see two main topics here, they usually open market, so they're bringing new customers to the market as well. And also they have a very focused. They are very focused on a specific type of clients. And we are more diversity in terms of clients that we have in our portfolio. So my view here that we still have a lot of work to do when we focused on young people and also to the base of the parameters. So this is where we should be focusing a lot for the coming -- I would say coming quarters. We still have work to do here.

Q - Geoffrey Elliott {BIO 15944940 <GO>}

Got it. Thank you very much.

Operator

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

Q - Thiago Batista {BIO 15398695 <GO>}

Yes. Thanks everyone. I have two questions. The first one about the capital position of the bank. Nut, you had comment that the bank continues with the target of 11.5% -- sorry 15.5% of Tier one target. With the end of the overhead, why not reduce these target of cap? So why not to work, let's say, 12.5% or a different number -- lower number? If I'm not wrong overhead used to be the main question that the banks or used to be the main cause of the cushions that the banks maintain their capital? This is the first one.

The second one during the past conference call, you mentioned about the importance of the payment business for Itau. Can you talk a little bit more about these units. When you say payment business, are you talking about he only or we were including, let's say, EG and also the business that can be created with Peaks. So if you can discuss this payment units that you mentioned in the part his call?

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

Hey, thank you, Thiago. Thank you very much for your question. On the capital side, what I would like to tell you is that we don't foresee any change in the 13.5%. And if you remember what happened in the first quarter of last year, you will see that yes, we had the impact of the overheads. We had those tax impact. But the major impact we had was the risk weighted assets. And you have to remember that they're different from many banks in Brazil, we do have a very important and relevant international operation. And whenever we have any devaluation of the effect, it impacts the risk weighted asset, not only for the U.S. or any other currencies portfolio that we have abroad, but also the portfolios that we have on balance sheet locally in other currencies. So these brought an important impact.

The other thing is that, it's true that we won't be having more relevant impacts on the tax side from the overheads. But we still work in a scenario that, we believe we should be cautious here, we don't know yet what would be the impacts of this from dynamic where we will end, what will be recovery that we'll be seeing? So we are comfortable in keeping a conservative level of capital, being 12% on common equity and 13.5% in level one. So we still believe that this is a good and comfortable level, okay?

And talking about the payments area, what I would say, yes, I feel right, not only we will have the acquiring business, the issue, all the credit card portfolio that we have not only for bank credit card business, but also the retailers that we have, we are partners. We also have the monoliners here where we sell to the open market, the credit card. We also have cash management for the whole bank, not only retail, but also for the wholesale business, we have the each platform inside this new business area and also peaks and we are discussing, what part of open banking should be there as well. So all business that we have inside the bank get tax payments somehow, even some business from the retail as well. Should be concentrated in these new business area. And we do believe, there is a lot of synergy, internal synergy, clients synergy, platform synergy, experience synergy for the clients, and this is what we're going to be working for the coming years.

Q - Thiago Batista {BIO 15398695 <GO>}

Very clear, Milton. Thank you.

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

Thank you very much.

Operator

(Operator Instructions) Our next question comes from Jason Mollin with Scotiabank. Please go ahead.

Q - Jason Mollin {BIO 1888181 <GO>}

Hi, everyone. I would also like to thank, Candido, for his hard work, dedication and communication over many years and congratulate Milton for his success in prior roles, which clearly underpin a selection as the new CEO, best wishes as you start these new stages. My questions are related to the perspectives and guidance that you presented. You mentioned that the bank's outlook for 2021 is dependent on the base case macro scenario that you provided. How would you frame the upside and downside risk for economic growth, maybe rates, inflation, and employment, the metrics you gave? And in that context, how do they translate to upside and downside risks for the guidance, specifically, for loan growth and loan loss provisions? Thanks.

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

Hey, Jason, thank you very much. Look, as I said at the very beginning, the base scenario that we have, it's a positive scenario. But we do believe, there is still a lot of uncertainty in the market. I would say that the main one that we have, it's the vaccination program. We still have to follow very close the evolution of this plan. Just to give you an idea, if we have a postponed of six months in this vaccination program, we should have at least -- we should lose at least 200 basis points in terms of economic growth. This will impact unemployment as well, and this will impact the FX. And the reason why it's because the expectation of the government to provide more support to the

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Brazilian population will increase, and also the uncertainty about the capability to have a sustainable debt. So this is our main worried here.

Of course, if we see the scenario, we don't believe that the credit will grow more for the low side of the guidance. That's why we made a broader range coming from 3 to 4 points. So we see a downside risk here in terms of credit portfolio. On the other hand, we should have a more concern on the cost of credit due to more delinquencies and we are not foreseeing for this year any new program to help the clients, of course, we will be very close to the clients, but not very structured program as we had last year. Maybe if we see a very, very bad scenario, we should think about reopening a program like that with the impacts that we should have.

On the revenue side, it's very important as well that on services. Those lines are very correlated with the activity of the country. So if we see a lower activity, as we saw last year, a few lines of revenues will be majorly impact. So that's why we made a broader range. So I see a concern on the credit side, I see a concern on the revenue side, I see a concern on the cost of credit. It's true that on the costs, non-interest costs of the bank, part of that is the efficiencies that we have to be very here deep in the analysis and keep moving in terms of opening boom for new investments.

But on the other hand we should benefit as well from a lower economic activity, because we have a lot of variable costs that would impact the operation as well. So this will be the hedge somehow for the P&L as we've seen last year part of it.

Q - Jason Mollin {BIO 1888181 <GO>}

Maybe just as a follow-up on the provision outlook. Does the cost of credit guidance incorporate any release of reserves? And then secondly on the costs side in the perspectives, you mentioned the -- an increase of about BRL1.5 billion. In investments for technology, new products and commercial platforms. What would that total amount be? Or in other words, what did you spend on an apples-to-apples basis in 2020?

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

Okay. Your first question, can you repeat it again?

Q - Jason Mollin {BIO 1888181 <GO>}

Was -- does the guidance for cost of credit incorporate any release of reserves?

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

Okay. Sure. Well, the thing is, yes, it is. We do believe that as our -- we work with the expected loss model, we anticipated the cycle, the credit cycle last year. So we expect the delinquency coming from the NPL to grow throughout the year. We do believe it will make a peak by the year end. And maybe in the first quarter of last year. And for sure, this will consume part of the provisions that we made multi-year. So they were made exactly to absorb those delinquencies that will be coming in the following years. So this is -- yes, so the answer is, yes, we do believe that.

And on the second question?

Q - Jason Mollin {BIO 1888181 <GO>}

Was the investment in technology --

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

Investment in technology --

Q - Jason Mollin {BIO 1888181 <GO>}

Yes. Yes

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

We didn't want to release in 2020, but it's important, it's a relevant increase that we have this year in terms of hours that we deploy throughout the operation. We will be growing a lot. The number of hours that we use not only for transform the bank but also to deploy and to develop new business. These new lines of our business inside new products, and new business inside the bank. So I would say that we almost doubled the quantity of ours that we're going to be investing in our operation from last year to this year.

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Q - Jason Mollin {BIO 1888181 <GO>}

So will that BRL1.5 billion be in expenses that will -- will that be amortized very quickly? Or how should we think about that number in terms of the expense?

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

Yes. Part of that, yes. Because we are seeing investment, but a part of that will already go as OpEx throughout the year of 2021. So not necessarily all of them will be made an assets and we have to amortize throughout the years.

Q - Jason Mollin {BIO 1888181 <GO>}

Thank you.

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

Yes. Mainly, this BRL1.5 billion, the way we released, I would say, that most part of that is OpEx, okay? There is small part of that is CapEx. So at the end of the day, it is implied in the guidance that we gave.

Q - Jason Mollin {BIO 1888181 <GO>}

That's helpful. Thank you.

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

Thank you very much.

Operator

Our next question comes from Carlos Gomez-Lopez with HSBC. Please go ahead.

Q - Carlos Gomez-Lopez {BIO 18107094 <GO>}

Hello. Thank you for allowing questions. First of all, like everybody else, congratulations and good luck to Milton and thank you very, very much, Candido, for all these years. It's been a very long role. From the time when -- once I have met you at PP8 Credit Astaldi [ph] Carlos Constantini can talk about that. And just you've had a great career. So, thank you. Thank you very much.

In terms of our questions --

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A - Candido Bracher {BIO 3158644 <GO>}

Thank you very much.

Q - Carlos Gomez-Lopez {BIO 18107094 <GO>}

One --. Thank you. In terms of our questions, now that you have a road to exit from XP. What changes for you, both have you learned from your investment there? And how will you establish your investment platform differently from perhaps, how you did before? And the second refers to the dividend, you've been very clear saying that you're going to rebuild your capital back to the 13.5% level. I mean should we understand that you are going to maintain this minimum statutory dividend, the 25% probably through the end of the year until you reach that level? Or if you get closer you will start increasing it? Thank you very much and again thank you, Candido.

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

Thank you, Carlos. Thank you very much for your question. Talking about the world, as we've been seeing here, we made a few changes recently in this executive committee as I mentioned. The idea here is to have a more simplified structure, where we can have more agility and focus and we will have a different time to market. We're going to be focused a lot more we see in client centricity.This is something that changed has been deepening inside the bank, and I think the culture of the bank is pretty much aligned with that. We still have a lot of work to do, we know that.

We achieved our goals for today 2020, but we still have room to improve for the coming years. So a lot of focus on that. We're going to be focusing a lot on the efficiency agenda, as I mentioned before, this is a must. And we should open going from new investments, so we have to keep in mind set to grow the bank to grow revenues, to open new lines of business, and continue to be able to find that, we have to open the in the business as usual on the bank that we have here.

So there's a lot of things to be done there, and also, I think that we're going to be -- a lot of amount of focus and this is something also that we invested a lot in the past years, is the ESG again, this is something very important. And we're going to keep a lot of focus on that, talking about diversity, talking about environment, talking about what we called here the Todos pela Saude was a major donation to help the country throughout this pandemic. This is the agenda that we will keep a lot of focus, and also we have a new executive committee now that it's organized and trying to elaborate what will be the strategy coming -- for the coming years. We have a lot of work to do on that ground and we going be sharing with you in the coming quarters whatever -- whenever we have more information.

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When we talk about dividend, the main issue here is that that we -- until we get to the 13.5%, we're going to be working with the 25%, which is the minimum regulatory. We do believe that by the end of this quarter, we should be above the 13.5% or even close to the 13.5% and then we'll keep or go back to the policy that we released to the market. So this is our expectation. We believe by the end of this quarter, we should be above the 13.5% and then we'll keep the same rows the same table that we released for you to the market, we'll go back to the same policy that we always have.

Q - Carlos Gomez-Lopez {BIO 18107094 <GO>}

Okay. Sorry. So, when you are thinking about being at the 13.5% level at the end of this quarter, I imagine that that includes the XP transaction and some positive impacts from there, because I mean, otherwise, it's a 200 basis points jump. Is there anything else that we have been focusing on that also changes to capital ratio?

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

No. The XP transaction that we are doing right now, there is minimal impact on capital ratios. The part of the deal that had more impact for us, the selling of the stores of the stocks that we made in the last quarter. It brought around to 20, 25 basis points in terms of capital. This was the main gain that we had. And this was the reason why we sold part of the investment we had. But on all this still off that we are making right now, there is no impact, relevant impact in terms of capital, because we lose networks and we lose also revenues here.

Q - Carlos Gomez-Lopez {BIO 18107094 <GO>}

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Okay. And that was our understanding. So I guess -- so, how do you get to 200 basis points?

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

I'm sorry.

Q - Carlos Gomez-Lopez {BIO 18107094 <GO>}

Yes. So how do we get to 200 basis points just in one quarter in terms of capital accumulation?

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

200 basis points?

Q - Carlos Gomez-Lopez {BIO 18107094 <GO>}

From 11.5%, at the end of this year -- at the end of this quarter to 13.4%?

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

20 basis points right, Carlos? What are you saying about the 200 basis points? I don't follow you.

Q - Carlos Gomez-Lopez {BIO 18107094 <GO>}

I am sorry. I had -- maybe I'm focusing on a different ratio. So you think you'll be at 13.5% of the quarter. That is fine. Okay. Thank you very much.

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

Thank you.

Operator

Our next question is a follow-up from Geoffrey Elliot with Autonomous Research. Please go ahead. go ahead.

Q - Geoffrey Elliot {BIO 3556144 <GO>}

Hello. Thanks for squeezing in the follow-up. Two very quick ones. Firstly, the XP sale. Why does that need the XP spend of, why does that need Fed approval? What's the Fed involvement there given the operations there in Brazil? And then second on PICCS. It sounds like there have been a couple of kind of operational IT type issues. I know the initial sign ups, initial key registrations was slower than you'd hoped, and I think that was something on the IT side there and then there's been some press in the last few days about transactions being duplicated and try to get those funds back? So curious about the tech challenges that you might have encountered on the PIC side? Thank you.

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

Look, first of all, talking about XP The reason why the Federal Reserve needs to approve is because, the bank and also XP have underwriting activities in the U.S. So it's part of the approval. We do have an operation in U.S. and XP as well. So as there is a change in the structure that we have Federal Reserve needs to Approve it. This is the main reason, okay?

Q - Geoffrey Elliot {BIO 3556144 <GO>}

Understood.

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

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Okay. And then talking about FX, as you asked at the very beginning. When the Central Bank first released the figures the numbers, we were at the very beginning at the journey, we made an important catch-up in the last months. As I can tell you it's not a public number, but we are very comfortable with the market share we have. And the market share for us is not only the quantity of keys that we have from the clients, but also, but more importantly than that is the transactionality of the Peak. So we have a very fair share on that. Also in quantity of clients and also quantity of the volumes transacted in terms of market share. So we are very comfortable with the catch up we made after the first announcement of the Central Bank.

Q - Geoffrey Elliot {BIO 3556144 <GO>}

Okay. And the tech issues?

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

And the what?

Q - Geoffrey Elliot {BIO 3556144 <GO>}

The -- it sounded like there had been some tech issues that made it hard for you to register keys at the beginning and then some more (Multiple Speakers) --

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

Well, at the in the beginning it was -- some instability in our platform, but we fixed. We sure, we will have -- its the nature of the business to have issues. But we are very comfortable with the catch up we made in the platform as well.

Q - Geoffrey Elliot {BIO 3556144 <GO>}

Understood. Thanks very much.

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

Thank you very much.

Operator

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

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

Thank you, gentlemen. Thank you very much for your participation in our call. It's a big pleasure to have you here. As I said at the very beginning, it's a time to say, thank you to Candido as well, for the leading us for the last four years. It was our privilege and a pleasure to work with you, Candido, and I'm sure from the Board of Directors, you will be here chilling for us and following us. So a big pleasure to have you on board.

A - Candido Bracher {BIO 3158644 <GO>}

Thank you very much, Milton. And thank you very much for the analysts and investors who have given us support during this period. And just I'd like to say that we should the best of luck, and I am extremely confident on the way you run the bank and how the bank will perform under your leadership. Thank you very much. All the best.

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

Thank you very much.

Operator

That does conclude our Itau Unibanco Holding earnings conference for today. Please answer our event perception survey available through the QR code. Thank you very much for your participation. You may now disconnect.

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