Q1 2021 Earnings Call

Company Participants

- Milton Maluhy Filho, Chief Executive Officer
- Pedro Moreira Salles, Co-Chairman

Other Participants

- Carlos Gomez-Lopez
- Geoffrey Elliott
- Henrique Navarro
- Jorge Kuri
- Mario Pierry
- Natalia Corfield
- Thiago Batista
- Tito Labarta

Presentation

Operator

Good morning, ladies and gentlemen. Welcome to Itau Unibanco's Holding Conference Call to discuss 2021 First Quarter Results. At this time, all participants are in 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.

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 of our Mr.Milton Maluhy Filho, President; Alexsandro Broedel, Financial Officer and Renato Lulia Jacob, Group Head of Investor Relations and market -- Marketing Intelligence. First Mr.Milton will comment on 2021 first quarter results. Afterwards management will be available for a question-and-answer session.

It's now my pleasure to turn the call over to Mr.Milton Maluhy.

Milton Maluhy Filho {BIO 15220856 <GO>}

Hello, good morning, everyone and thank you for attending our first quarter 2021 earnings conference call. I'll start with -- is like to, we can jump straight into our highlights, for the quarter. The recurring net income grew 18.7% and reached BRL6.4 billion and this important growth was supported by a sound overall performance of our business despite the volatile macroeconomic environment, okay. When we look to the loan book we had a solid growth of 4.2% in the quarter. Three of the most important contributors for this performance, were mortgages and auto loans and growing respectively in both of them 12.1% and 4.5% in the quarter as well as our renewed focus on the Agribusiness sector. The increasing demand for this product is to directly correlated with a new approach towards the segment with the new -- specific product being allocated.

Looking at our P&L the financial margins with clients continued its positive trend for the second quarter in a row despite the negative seasonal effects of the first quarter. Cost of credit contracted by 31.9% in the period reflecting here the positive credit quality trends in the portfolio. Non-interest expenses decreased 6.6% in the period which is a result of constant investment in technology boosting our operation efficiency and lastly, we managed to navigate this high volatile environment very well generating a 51.7% gross in the financial margin with the market. I also would like to update you about our digitalization efforts as they continue to generate positive result. We opened more than 3.7 million relationship with new clients through our digital channels only in this first quarter alone.

And finally, I would like to highlight the important changes in our strategy iti which was born originally as a digital wallet as you remember, and evolved through this life cycle into full fledged 100% digital banking operation. Through iti we opened more than 2 million new relationships this quarter. We will deliver deeper into all those topics as we move along this presentation.

When we move here to the Slide 3, I'd like to say a few words, some statements before we go into this next slide. First of all, I'd like to talk about what we believe it means to a digital company. For us to be digital is essentially to have an absolutely focused on the needs, demands, and real pin points for our clients. The way to -- is naturally through the use of technology, but this does not mean interacting with your customers entirely remotely or just view Super app. Being digital in our view goes far beyond that. Truly digital companies have cultural and operational characteristics that set them apart. For us, being digital means we should be able to serve our clients where, when and how they wish to be served. For some this will mean taking care of other banking needs via our Super app on their mobiles and to others, it will mean having a face-to-face discussions with a financial advisor, who will help them make the best decision supported by data and a state of the art product and services.

With this objective in mind, several aspects are essential for the digital transformation of the company. The first one is of course the intensive use of technology in all areas of the operations from new ways of interacting with customers to process automation. The application of technological solutions increases our ability to create new products and truly differentiated experience for our customers.

Second, innovation must be part of everyone's daily life and not a task confined to a group of team. And third, we need to be fast in developing and implementing new solutions, reducing the time to market and adjusting and adapting whenever needed. And fourth, we must organize ourselves into multidisciplinary teams, using new ways of working as part of this. We need to have a passion for efficiency, using technology to leverage our commercial potential and increasing our ability to offer more competitive products and solutions to our customers.

And finally, having the ability to use the huge amount of data, we have accumulated throughout the years, will allow us to offer products that more intelligently and instinctively fit our clients' needs. Throughout this presentation we will address several of the points I have just mentioned in order to shed some light on the important advances that we are making in our operation.

Moving to Slide 3 we present some of the KPIs of the migration of our customers to our digital platform. As we showed previously we opened new relationship with more than 3.7 million customers entirely through our digital channels. This is a trend that's still was celebrating. We opened 1.5 million new relationships on our digital platform in April alone. More than just opening new accounts we noticed a growing engagement with our clients through digital channels and 54% of the products are acquired entirely digitally. Even more important has been our customers feedback which shows excellent levels of satisfactions, which on NPS the first time we released NPS figures, reaching close to 80 points. This is only a fraction of what we are developing and delivering to our customers but it already shows some of the results of our strategy.

On the Slide 4, you can see iti we present the evolution of iti. As I mentioned before, it was more in 2019 as a digital wallet but over time closely listening to our clients demands and paying close attention to market developments we noticed with there is a potential way in becoming a completely digital banking operation for clients that when simplified of course free of charge and fully digital banking platform. Over the last year, we worked very diligently by voting the -- business model and improving upon, the initial MGP. We increased the product availability to offer things such as debit and credit cards, personal loans and the possibility to withdraw money in money in our ATM network. Not only that, but the clients also have access to an ever growing list benefits that are tailored to the geographic locations and profile. These changes -- show that we seem to be moving in the right direction. We reached 6 million clients, half of them were acquired in 2021 alone giving this a strong performance and the continuous improvement of this platform. We have a goal of reaching 15 million clients by the end of this year, this is our ambition.

We believe iti is a platform with a great appeal to attracting new younger clients, 84 of the clients don't have an active bank account in Itau and roughly 70% are between 18 and 35 years old, which shows the potential that this platform has to reach this important demographic.

Lastly, it's important to mention that iti in addition to being a business by itself is also relevant technology platform to support our other businesses. This is true for both the -- alignment products such as credit cards and the other banking services. All in all I believe this operation shows our capacity to listen to our clients demands and learn from our experiences private and evolve.

Talking to now on mortgage and financing we will discuss some of the dynamics behind two important portfolios within the retail bank mortgages and auto loans. As you know mortgage is an extremely important product for our client probably one of the most relevant financial decision families will take. It's one of the key products to increase the lifetime value of banking relationship but for historical reason it's still under penetrated in the country and represents only 10% of the Brazilian GDP. If you put those two things together it's easy to understand why this segment is so competitive. In 2020, we repositioned ourselves and brought an important innovation to the Brazilian mortgage market, when they launched the product, with interest rates linkage to the saving deposit, which at the time were the lowest interest rates available in the market. We were able to do that on to a unique funding structure, which allows us to be more competitive in pricing without eroding the products profitability. And our operation, reacted to the stimulus as the origination more than tripled in the first quarter, when comparing to the same period from 2020, reaching a record breaking of BRL10.3 billion. This resulted in a 12.1 portfolio growth in this quarter alone.

This extremely fast expansion unfortunately brought us a negative side effect in the form of below ideal customer service, this resulted in a negative heat on our transactional NPS score for the operation. Throughout the first quarter, we worked tirelessly to improve our production line and expand our teams and we feel that in the next quarters we should see a market improvement in client satisfaction with the product as the new vintages already show a 50 point NPS score coming from 30 points as you can see in this slide.

As for auto loans, the pandemic had brought an important change in our client perspectives about the benefits of owning which in turn fostered demand for auto loans. This led to an important year-over-year growth of total 25.6 as you can see when looking to our retail operation. And last but not least, the demand for heavy duty vehicles and trucks were also quite strong. And with a bespoke financing lines, we were able to grow more than 30% over the last over the last 12 months and became leaders in the segment.

Moving to Slide 6, agribusiness I would like to share that what we have been doing especially in the agribusiness sector despite the fact we have been catering produce very important industry. We lacked an integrated strategy to serve all the different actors with the specific developed product and teams. This started to change when we recently create an agribusiness division within the corporate banking operation. We developed a completely new platform and hired a specialist to expand the commercial team and geographic coverage to offer a product tailored to meet client's needs and we are ready reaping positive results. Client satisfactions is among the highest in the bank while this credit portfolio grew 11.2 over the last quarter and 20.5 over the last 12 months, reaching BRL46.5 billion in the end of the period. This growth was reached with a strong source environment analysis, as we are working side by side with meat producers to ensure the production chain, traceability and preventing illegal deforestation. I'm confident that this segment will continue to be an important driver for our growth in the quarter to come as we aim to end 2021 with approximately 2400 client a five-fold increase in relation to 2019.

Moving to the next slide, Slide 7. The credit portfolio grew 4.2% on the quarter and this growth was -- not only by the mortgage vehicle loans I just mentioned but also by the large corporate and Latin project portfolio. The later -- are result of the Brazilian Rial the evaluation. As for the large corporate portfolio, we had an expectation that the debt to capital markets would be already at normalized level in this first quarter, which did not happen. On the other hand, the good news is that we managed to put that operations on our balance sheet that can distribute it over time, which boosted our credit growth in the period. The credit card portfolio decreased 4% in the quarter, mainly due to seasonal effects and also due to a lesser extent a deceleration of the economic activity in the country.

Lastly, the personal loans book grew 1.6% despite this somewhat uninspiring growth at the first glance that was an important mix changing in its composition. As you can see on the table at the bottom right corner of this slide, that boasts the overdraft portfolio on the tradition unsecured personal loans group, meetings, -- the -- profile loans declined almost 10% in the same period and this trend materialized mostly at the end of the quarter so it was not yet meaningful enough to impact our NII in the quarter, but it paints a positive picture for the next quarter's nonetheless.

Moving to Slide 8 the financial margin with clients, we show that our financial margins grew around 1% in the quarter despite the seasonal effects from the lower amount of calendar days. This growth was mainly driven by the higher average credit portfolio as well by the remuneration of our capital and this strength resulted in a flat NIM in the quarter. Looking ahead we expect to see an acceleration of our NII not only as an effect of the credit growth but also due to higher utilization of revolving loans and consumer loans as already depicted on the previous slide.

Moving to Slide 9 we showed the evolution of our asset management platform. Over the past few years with the -- reduction of interest rates in Brazil, we began to observe more and more customers yearn for more sophisticated and differentiated products in order to invest their money. This demand led us to make profound changes in our asset management area. Seeking to offer the most complete portfolio of investment products in the country implementing the concept of open platform in the bank. Therefore, we started offering 35 products and services in addition to our product. This strategy was resounding success as we already have almost BRL330 billion in assets under custody in this platform alone. Not only that, but we strive to diversify our own asset management product aiming to bring more added value in line with our clients demands an expectation.

A good example lies on the asset management products that are alpha focused. We used to have BRL9 billion in assets under management from such product and now we have more than BRL60 billion under management, which is exactly the type of product that our customers have been demanding the most.

Additionally to support this movement, we changed our own asset management division, creating independent asset management teams within the bank, which attracted more than 40 of the most talent portfolio managers in the country. Seeking to expand our product capillarity and reach, we also started offering them on third party platforms and we are ready distribute our products on 16 different platforms and banks in additional to Itau itself. We also invested a lot in transforming our clients investment journey by launching our new investment platform, which is called ion and this platform brought us a completely new user experience for our clients. We are also investing heavily in our new investment advisory model bringing transparency regarding our advisors incentives. More than that, we are hiring more than 1,200 new investment advisors to help our clients better understand the products offer and make the best choices in-line with their profile, of course and I believe these changes will further leverage our customers perception of us.

Moving through Slide 10 now I'm going through fees and insurance revenues. We can see that it declined 1.9% in the quarter and this performance was largely expected as a result of two factors. The first one is related to the credit and debit card, seasonally this revenues decline in the first quarter of every year due to lower economic activity in the period. But it's fair to say that this effect was further deepened by the deterioration of the pandemic in Brazil and it's negative effect over the economy activity. And the second one is our current account fees which equal decline 3.5% in the first quarter. As we mentioned in the previous quarter earnings call since the implementation of the new first payment solution -- we took the opportunity to exempt, our clients to pay any fee wire -- in wire transfers despite of their preferred method and this quarter we have the full effect of this movement.

It's also important to mention that the asset management fees declined 7.2 in the period despite the continuous growth of the assets under management I just mentioned and this was mainly a result of lower performance fees and I expect to see better performance in the next quarter. Also, it's important to say that our investment banking continues to be an important source of revenue and retain a leadership position in the market. Despite the macroeconomic volatility the capital markets continue to show resiliency and the pipeline of transaction for the next quarter is as strong, if not better than what we saw last year. Lastly, our insurance revenues grew 5.5% in the quarter as a result of better financial margins in our private pension plans business.

Now, moving to Slide 11, switching gears here, I'll tell you about the credit quality KPIs. As you know, every year we see a pickup in short term delinquency in the first quarter, especially driven by the individuals portfolio. This is due to a higher concentration of expansions in the period that range from the holiday season expenses to our new property taxes. In-line with previous year, this quarter we saw the same movement as the NPL's 15 to 90 days ratio increased 35 basis points but even more important was this portfolios, the NPL's 90 days ratio which decreased 30 basis points and reached the lowest level in our recent history.

As for the SME portfolio, we saw an increase of 80 basis points in the NPL 90 days ratio, and this movement was expected and it's related to the end of the grace period of the re-profiled loans portfolio. Despite this increase NPL ratio it is still in line with pre-COVID levels and if we strip the re-profiled loans from this ratio, we can see that the remaining portfolio continues to improve the credit quality ratio. Also, it's important to mention that this portfolio short-term delinquency declined 20 basis points, which reinforces our view that the worst might be behind us. As a result of the positive credit quality trends on the retail cost of credit was 31.9% lower in the quarter.

Lastly, our coverage ratio declined 22 percentage points in the period mainly as a result of the wholesale segment both in Brazil as in Latam. These positive KPIs despite the negative macroeconomic context we are going through are the direct result of the strategy we put in place last year when we launched the program with a wide range of customized solution that includes grace periods extended loan terms and additional credit offers. This initiative thought to offer more breathing room to individual customers and micro and small companies helping them traverse this crisis with greater tranquility as we mentioned at the time that it was a trade-off where we ended temporarily giving up a part of our NII in order to support our clients and therefore, our credit quality.

Only Slide 12, IT a very relevant part of the digital transformation is what's happening behind the scenes or inside the bank, which is not easily captured by looking at KPIs from our digital channels and client acquisition. Here at -- knowledge is not an internal service provided an area that is sealed and detached from the business. It's now another key element on the teams that work is towards serving our clients and developing of course products and business within the firm.

On the Slide 12, but also the next one we will try to give you some insights on the major developments within our technology teams and how it's translating into superior KPIs with direct impact in our business. Firstly, we managed more than double the investment in new solutions while reducing infrastructure spending by 28%. These are much more efficient way of spending money and it's a trend we should see moving forward. But it goes without saying that people and culture is what drive real transformation. In that sense, we have been reorganizing our teams around community and -- operation in agile methodology. We have progressed well so far in that aspect, and some of our most important business teams such as credit card, cash management and mortgage are already working under this new set as well, are roughly 50% of the eligible technology operation business and products teams. The benefits are very tangible already as you can see in this slide. This is why, our goal is to reach 100% by the end of 2022.

Now, moving to the next slide, Slide 13, talking about the digital platform and devops. We continue to show other aspects from our digital transformation that I believe are very important here. We are looking at our cloud migration effort, our goal is to reach 50% of our services in public cloud by 2022 but please note, it is not just a simple copy and paste of the current systems to a new remote data center. We are rewriting code and updating the solutions breaking down monolithic systems and using microservices architectures so we can maximize the benefit from this movement. This allows us to have a more autonomy speed, productivity and efficiency in our operations and in parallel we are considerably spending the deployment of code which are reducing which are reducing of in fact the amount of time spent on business complexity points and finally in terms of quality we already see ourselves as benchmarks as our digital platforms have the highest availability rate in the market. What's behind our digital transformation is our obsession in improving the customer experience and satisfaction.

Now moving to Slide 14 we conceptually detail here our efficiency program. The bank always had a strong focus on cost management and efficiency, but we understand that we need to go beyond what we have already achieved for that is what's necessary to it strength of our efficiency culture throughout institutional at all levels. We needed to question ourselves tirelessly about opportunities to optimize of course and optimize our activities and processes.

Additionally, we implemented a transversal efficiency program, covering the entire bank. Currently, just to give an idea, we have 16 efficiency front, each of those fronts count with the presence at and sponsorship of one of our senior management and we have by weekly work meetings to measure its evolution. Moreover, we stand -- the work methodology with detail KPIs and planning structure. In a meticulous work that's already beginning to show results as we have 1,200 initiatives being planned out of which more than 400 already in the implementation phase. These are of several types since this small initiative to reduce waste to large restructuring project, two major one or restructured one. In fact, as you may notice, we have made a large non-recurring provision this quarter related to the restructure of our operations within the retail bank, which we will implement over the next two years and will bring great benefits in terms of quality of service and efficiency. I'm confident that with all the changes and transformations we implemented so far, we are on track to achieve our goal which is to sequentially reduce our core expectation over the next three years.

Talking about the non interest expenses. The financial result -- in Slide 15 at that are what I have just present over the last 3 slides can already be seen on this slide as our known interest expenses declining 6.6% in the quarter while we continue to invest in our business and in IT. This investments generate more room in our expenses opening the opportunity to fulfill the investment in a sense of self funding themselves. In the end of this how we -- future investments in the bank over the next few years.

Now, moving to slide 16 we show that our Tier 1 Capital ratios decreased 20 basis points on the quarter. This contraction was largely due to the FX impact both in our credit portfolio, and in our overhead strategy. This negative impacts were partially offset by our financial performance with a higher net income and profitability in the quarter.

Now on Slide 17, talking about the guidance. Well, I think despite the deterioration of the cemetery crisis in Brazil and it's negative impact over the economic activity, we still believe that the guidance for 2021 is to express our best expectation for the year.

And now on the last one finally on this Slide 18, I end this presentation and I would like to invite you all for public meeting on June 2, when we will bring all the members of our new executive committee to present our vision for the future of the bank. This will be a fully digital event and we will send further details in the next few days.

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

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>}

Thank you. Good morning, everybody. Congratulations on the quarter. Thank you for a very detailed presentation. It really helps us understand the bank's strategy better. Milton, I have two questions. The first one is on iti, right, you show that you're growing your iti clients quite fast. You're able to attract clients, they're not clients of the bank. So I would like to understand here is, how do you think about monetizing on this clients, right. You talked about some products there. But if you think about your ability to monetize on this client, how do you think you will compare to the level of monetization of your regular bank client. And then on the topic, how do you see the threat of competition from FinTechs? How do you rank that as a threat to the profitability of Itau?

And then my second question is related to operating expenses, right? As you talked about you had another one time provision charge for restructuring we see that your employee base in Brazil declining excluding all of the hires they're making in IT. Well, how do you see your branch network over the next couple of years? Is there a room for you to be reducing branches quite aggressively? Thank you.

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

Thank you, Mario. Thank you very much for your question. I'll start with the first one. Of course, when you mention about the platform, iti platform. So the first thing is that we had to do a major change in the way we were approaching the market, and approaching the clients. At the very beginning, it was considered to be a payment platform, but at the very end, we started to migrate to a full banking, digital banking offer. This is a way to compete and to attract clients, as you can see on the numbers, we showed. We are not -- we are bringing new clients to the bank at the end. So 84% of the clients are new clients to bank and also we have a very important approach with young people and non-banking clients, which are the major public coming to this platform.

So this is a different way. It's completely different of doing a business plan as we used to do in the past, that in the second third fourth and fifth year what will happen, and what will be the profitability. So the idea here is to change the mechanic so we bring clients. We do -- we bring them to a very unique experience so in the coming quarters we will understand their needs, and how to monetize the platform. So, this is the way we are approaching. Of course, one of the best ways of monetizing this platform will be credit in the mid to long-term. So this is our view in credit cards and personal loans. This will be of course the strategy.

We don't have a product roadmap. We have a need of client roadmap which is very important, it's a different approach again. And so we'll be enhancing and creating new products together with the clients, as they need for different features and products. So it's difficult to give you a number right now. But we do believe that bringing those clients with a very good user experience, and level of service, and a very unique technology platform we will find ways to monetize those clients in the future. So this is the most important way.

Talking about FinTechs, yes, we see some companies that are not FinTechs anymore, they grew a little. So they have an important size. They are of course fighting for some markets, but they are opening new markets as well. And we see some complimentary new markets coming, as you can see here iti is opening new markets for Itau as well. And iti, yes compete with these FinTechs and platforms in the open market. We believe that we have the balance sheet, the capability to approve credit and to manage credit in the midterm with the data that we have with the models that we already have. And this could be differentiation in the long-term, the capability to increase credit in the platform, even though we recognize there is still a tough competition coming from FinTechs in the market, and it's part of our job here to compete and to deliver a better experience to our client. This is emendating by the bank.

Now, talking about the provisions you asked, it's a non-recurrent. And the reason why it's a non-recurrent, because this is a new structural project that we defined in this last three months, it doesn't have anything to do with the regular course of the OpEx of the bank. And in the other hand, this is not recurring. So we don't believe we won't be seeing provisions like that in the coming quarters. This is a very specific one made for the simplification of the way we deliver services to our clients throughout the branches. So there is a merge going on through the various types of themes and this is of course will generate those effects that's the reason why we made and anticipate the provisions in a non-recurrent.

So we are very comfortable with that, and it doesn't have an impact with our costs in the first quarter. Okay? So are two unrelated lines. Talking about the future of branches some information that I believe will be constructive here is the following. When we look the banking clients on the system, there was an important improvement in the last 10 years of 16% of banking clients, new banking clients to the system, even though the market share of mobile reached 45%,50% of the transactions on a nominal basis, today we have more payments throughout the branches than we used to have in the past years.

So even though there is the share of the channels have changed a lot we still see a very important role playing and coming from the branches. When you look in Brazil, the density of branches per 100,000 inhabitants you will see that we have the lower figures when compared to various countries that have gone have gone through the digitalization. I won't say after currency, but after payments, and that means that nowadays we have a good density when compared to development markets where much more payments are digitalized in Brazil.

Having said that we are going through a very relevant transformation in our branch area. And if you look five years to now, we closed around 1,000 branches in this period. And the reason why is because, we had an important redundancy of branches, and nowadays we are much more comfortable of the one we have. Of course, there is an important migration to digital channels and the pandemic moves a lot of clients to digital channels.

We need to see how will be the flow of people going to branches after this period, but we kept even reducing 1,000 branches in the period the 84 GDP penetration that we have throughout our branches, and we are very comfortable about that.

I believe that our -- after the pandemic, we may see a reduction in branches, it's expected to, but we are changing a lot the way our branches are structured. We have what we call the hubs, what a full branches that we have and also the (inaudible) Itau branches that we have a very specific ambition to serve clients in specific regions with very specific demand. And this is a major change in our model, and I can go about and I can give you more information about that in the next call, idea to bring you more information about this.

So we do believe that the remote and the physical presence that's why we see digital here it is still very important. And for more complex products in general, we see a huge demand from the clients to talk and to be having a face-to-face experience could be remotely or could be presence in physical branch. So we do believe that the physical branches is still have an important role to our strategy.

Q - Mario Pierry {BIO 1505554 <GO>}

That's very clear, Milton. Appreciate your answers. Let me just follow up on iti then really quickly. When we think about all of the other digital banks in Brazil, it seems like we have a new digital bank popping up every week. What do you think makes people choose to download and accounts iti? And if you can talk a little bit about your acquisition cost, your customer acquisition cost at iti.

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

Perfect. Look, first of all, the client, he wants a simple payment account. He doesn't want to go through that process that you have on a regular current account. He wants a free of charge experience and a digital one, it needs to be somehow sexy for the client when he looks and see, he make wise himself with the brain with the appeal of the product. And I think it has an important role. Something new, something that brings new opportunity for that client. So, when you go to iti, you can see that in four minutes you open an account, and this is very impressive.

And when we see some information that is provided to the market, some interviews that they make to clients, you see that iti nowadays leads very well in a lot of rankings and surveys they make, specifically surveys, the experience to open up an account in iti. But it's free of charge, so this is basically what the client wants. He want an on account, a payment account, he wants to pay bills. He wants to put some cash and he wants to have a prepaid card. But then we can as we understand the behavior of the client start to provide credit, and this is something that most of those clients, they don't have a credit score or they don't have a credit experience in the market. And this is very important for us to provide them some financial education, gamification as well and also to provide a lot of discounts and cash backs and things that for him is very important for his own income generation.

So this is basically what they look for. What we've made here is that we couldn't go to market if we didn't have a very, very competitive cost of acquisition. Because at the end of the day, if we're not able to monetize in the long-term, that will be a huge cost for the bank. And nowadays, we are working with BRL24, BRL25 is per account. This is the cost of acquisition which is a small percentage of what we have when acquiring a client throughout the physical branch or any other channel. So iti has been a way to make and to bring a CAC cost of -- client acquisition cost very, very competitive, and this is why we are achieving a very important amount of people

Q - Mario Pierry {BIO 1505554 <GO>}

It's very clear. Thank you very much.

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

Thank you. Thank you, Mario.

Operator

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

Q - Tito Labarta {BIO 20837559 <GO>}

Hi, good morning, Milton and everyone. Thank you for the call and taking my questions. Also a couple of questions if I may. I guess first on your revenue growth outlook both on the financial margin with clients, I know it's impacted a bit by seasonality, but even looking on a year-over-year basis, financial margin with clients was down despite the good loan growth. And then also on the fee income side, right also, some seasonality there, but cards are down, asset management fees, despite the growth in assets under management are also down, supported by the advisory business which can be cyclical.

So just want to think in terms of sort of a longer-term sort of revenue growth outlook. How should we think about the competitive environment you're talking about, the FinTechs and everything going on, movements in rates? And I know you have the guidance, would you expect it's still is the best guidelines for the year. But how much pressure do you see on revenue growth going forward? Do you think the worst is behind and revenue growth can begin to pick up? If you can help us just think about that given all the competitive dynamics.

And then my second question is on the cost of credit, good performance there. But the cost of credit now below historical levels, and I know you have plenty of excess reserves which you could perhaps use, but also again on a more recurring basis, once you get back to normal, is this new level of cost of credit given the changing mix or should this go back up, I think normalize, if you can help us think about sort of a longer-term level for that cost of credit would be helpful. Thank you.

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

Thank you for the question, Tito. So first of all talking with the margin with clients, the main topic that I would like to reinforce here is that we had two major effects last year, somehow we had the revolving credit price, pricing discussions with the Central Bank regulating and this had an important impact for us in the financial margin with clients last year. We had a pandemic which was very strong, and hit very strong our activity but I also would like to reinforce that we've made some self-inflicted decisions here that in the short-term, we say it's an investment and the relationship and the life time value of the client.

But in the other hand, we had a huge impact in our revenues last year, when we migrate clients from revolving credit and for clean portfolios with much better ease spread to long-term credit lines with a grace period and a very lower rate -- a lower interest rate on the portfolio. So we've been paying that for three quarters in a row. We still have the impacts of that this will be reducing in a slow pace in the coming quarters. And last year we had as well the government credit lines which we made an important amount again very focused on our clients, how to help them to go throughout the crisis. And this has also an impact in the financial margin with clients. Even though in terms of return on equity, and return on the expected loss of this portfolio. It's very positive because it's a very well-protected credit line due to the guarantees that we have from the government on those credit lines.

So having said that, we've been seeing an acceleration in the last quarter on the balance of those credit lines, we see an improvement talking about the first quarter of 2021. We expect that coming on a positive trend for the coming quarters. So we still believe that we are able to deliver the guidance looking what we see coming ahead. It will depend of course on the credit environment and the capability to increase credit lines with the clients that are going through a tough moment here with the pandemic, but we are positive about that. And I think we have the capability to catch up. But on the other hand, I'm talking about here NII we see that we grew the portfolio the big company's portfolio as well, as we have seen a market, the local market capital market it's not opened as we've seen in the past. So we grew not only in 2020 but also in 2021 the portfolio of large companies, putting in the balance sheet credits that have a good return, but of course when compared to the retail credit lines, it won't help in the mix. So it put pressures in the NIM.

But it brings profitability here, not only on the NII which is very important nut also on the fee side we are able to cross out those credit lines with the corporate clients and large corporates in general. So, we see a positive trend but again, part of that is self-inflicted. And our view here is that we cannot look only the short term, but we have to look to the lifetime value of the client. It's very difficult for you to make this calculation, you don't have the information, but we do have and we've been seen very positive outcomes about this decision we've made, not only on the credit cost but also on the NPS, and the capability to cross-sell with those clients, especially when they go out of this difficult and tough moments. Okay.

Talking about the cost of credit. Yes, we had a very, very good cost of credit in this first quarter I would say this is not our expectation in terms of level, we do believe that in the coming quarters we will come above that which is our expectation. I've been saying that we do believe that we'll be more close to the bottom of the range of the guidance will be provided to you, and we still believe that we can do and deliver below that. And the reason for that is that in this quarter we have not consumed part of the expected loss provision that we made last year, but we do have the expectation to consume. I'm using the word consume, I'm not saying a reversing provisions, I'm talking about consumption because those provisions were done in the toughest moment of the pandemic last year. And looking to our NPL formation we were provisioning much more than 100% in the last quarters. So we do believe we have the expectation to consume.

You look this cost of credit, and compare to 2020, '19, you will see that it's a very similar level when you look the overall cost of credit. We are having a very good performance on the large corporates and mid companies as well. We believe this is a very positive for this scenario we are living in. It's difficult to project 2022, but as we have been seeing the portfolio growing for the four years in a row, we expect that the nominal cost of credit grow as well in the coming quarters.

Q - Tito Labarta {BIO 20837559 <GO>}

All right. Thank you, Milton. That is very helpful and very thorough. Maybe one follow-up, if I can on the lifetime value of clients, as you mentioned are you very focused on that. Any initial data you can provide on what kind of LTV to CAC you might be getting or are targeting to eventually monetize these clients?

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

So, CAC and which I'm sorry I missed the first part.

Q - Tito Labarta {BIO 20837559 <GO>}

Yeah. Sorry. (Multiple Speakers)

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

No, we're not releasing that because it's calculated for different segments in a different ways. But this is a metric that we are pursuing and looking and guaranteeing that it's implied here in all the KPIs that we have for all the businesses. So, we don't have one figure to release, we have many different figures that we follow. What we are seeing is that all the clients that we had a proactive approach in helping them going throughout the crisis we've been seeing a lot of benefits of ahead of doing that, especially on the NPS which is very well correlated with the lifetime value of the client. So, this is the way we've been seeing that.

Q - Tito Labarta {BIO 20837559 <GO>}

Okay. Great. Thank you, Milton.

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

Thank you very much, Tito.

Operator

Our next question comes from Henrique Navarro with Santander. Please go ahead.

Q - Henrique Navarro {BIO 16188960 <GO>}

Hi. Good morning, everyone. Thank you for taking the time. My first question is on the -- back on the provision for restructuring. I understand I think again really when we do this kind of provision, normally there is a long-term plan where the positives are higher in the provision itself. I saw by through your presentation that you have the goal to sequentially reduce the bank core over the next two years. So I'd like to understand the relationship between the provisions for restructuring and this two years goal, I mean what kind of savings shall we expect for the next two years, based on this provision. And that's my first question then I'll jump to the second one. Thank you.

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

Okay. Thank you, Henrique. So to go through that, I can tell you that we've been saying to the market that we are pursuing reduction -- nominal reduction in cost this is the second year in a row. And this has to do with our efficiency program that we've been leading here and dealing for two years now.

So the idea here is to separate what its core costs, what is investment, and to separate and say look, we want to reduce the core costs of the bank to open room for investment. This provision it's not why we went to achieve these three years in a row. Three years is to give you a horizon here to say that's what we can see looking from now, things can change in the meanwhile. So that's why with that three years would be a good positive message to give you from where we can see what we can deliver.

And of course, this is part of this structure efficiency program, this is one of the initiatives as you saw before. We have more than 1,600 initiatives, 400 are in place right now, and this is our moving target. So every day we are discussing what else we can do. So this is not why we will achieve but of course it may help us because we are simplifying the way we deliver the relationship with our clients in the branches on the operation and commercial team. There is a huge investment in this front over here. So this is part of the transformation we are making on the bank, but this is not what explain this reduction in the coming years. This is one of the initiatives but there are many others as we were saying here in the previous slides.

Q - Henrique Navarro {BIO 16188960 <GO>}

Okay. Thank you. My second question is on iti. You mentioned that you have 6 million clients and 84% of clients without an active account with basically means 16% of your clients are coming from Itau, so we're talking about 1 million clients. I would like to understand, how do you see this cannibalization looking forward? I mean in sense that it shall increase, decrease, I mean your target 15 million clients until the end of 2021. How many of those clients might come from Itau? I would like to hear from you how do you -- do you see the cannibalization between Itau and iti? And when do you believe iti will reach breakeven? Thank you.

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

Perfect. Henrique, so coming to this cannibalization question, we have a very simple view, either we do or someone will. So as we have many offers nowadays in the market, and we have an important churn in our client base and this is something that we follow on a regular basis. It's expected that a client, especially the ones that have this profile they migrate for regular current accounts to product that for them, and for the bank is better. Because most of those clients, if you allocate the cost of the branch you will see that they are not profitable at all for the bank. So they are cost somehow. And when they migrate to a very digital platform with a very small cost of acquisition, and a cost of maintenance, we can serve this client in a much better way with a very more correct cost to serve the client. So, this is positive at the end of how the bank -- when you have the true view of the clients that keep using your products your current account and the branches.

So I see that as a positive migration, not as a negative migration. And also today or in the coming -- on the past years, we were losing those clients to someone else. So I didn't have a very economic way intelligent technology way to serve those clients. So I was losing those clients to the market. Now, I can capture bring new clients and also retain clients that I would be losing to the market. So I see that see that as a positive way. About the breakeven or iti, we are not giving any release on that. And the reason why we are pivoting here and investing and seeing, what is the size, how many clients, how we monetize. So we don't see that at a five years business plan, we see more on a quarterly review to understand if the OKRs and the KPIs that we had planned for this quarter were achieved. And if yes, we will invest three more quarters and keep doing like that. So, we don't have a specific metric in terms of P&L and this is the way that the new market, the new competition works and this is the same way we are approaching it with a completely different way than we used to approach overall business lines in the bank. So, we are learning as well, the way to understand what are the success metric relating to client, cost of acquisition, engagement, NPS, those are the most relevant metrics that we are following now.

Q - Henrique Navarro {BIO 16188960 <GO>}

Okay. That was very clear. Thank you very much.

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

Thank you, Henrique.

Operator

Our next question comes from Jorge Kuri with Morgan Stanley. Please go ahead.

Q - Jorge Kuri {BIO 3937764 <GO>}

Hi, good morning everyone. Thanks for the call and congrats on the numbers. I wanted to go back to the net interest margin outlook, and mainly understand the relationship between SELIC rates and your margin. And evidently there's a lot of moving parts over the last 12 months, as you pointed out, Milton, in how your margins with clients faired. But, there is one big item there which is rates, which were very different a year ago. So your

Brazil annualized average margin was 11% in the first quarter of last year with average -- of 4%, it was 8.5% in the first quarter of this year with average SELIC significantly below around 2.5% average for the quarter.

If consensus is right and SELIC rates go back up to around 5% to 6% a year from today. What do you think your analyzed margin will be? Would it be fair to say that you should be above what you did in the first quarter of last year? And just in general, so forget about what it was back then. Where do you think that will be in an environment where rates are 5% to 6%? And I have a second question which is similar, which is your asset management business. I think there's a bit of confusion there. Your volumes did really well, but your margins didn't. And it also I think is impacted by the average SELIC rates, where your fixed income products, which is a really big part of what you have under custody and management can generate the same amount of fees for you. Where do you think, should we see an acceleration in those fees over the next year as a result of rates moving back up to 5% to 6%. Thank you.

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

Thank you. Thank you very much, Jorge. So, beginning here with the financial margin with clients, I'll tell you that when you look back a few years ago, you will see that our large corporate portfolio was not growing the same way it grew last year and this year. And this of course has a direct impact in the NIM. So we have to go back into the mix that we had in the first quarter of 2020 and compared to the mix we have now. So on the NII side we will be growing the NII due to these increase in the portfolio, but we have a mix that when you go back to first quarter of 2020, it was more riskier mix, not only on the retail side, compared to the wholesale side, we have more credit cards, personal loans, and less mortgage, less vehicle auto loans. And also, you had a lower portfolio of large corporate company.

So having said that, I don't believe we will be going back now to this 9.2% that we saw. I believe, we're going to be improving proving our financial margin with clients, but I think we've had different mix. Okay, this is one of the issues. The second one, yes, you're right you will have the impact of the increase in the interest rate, we were seeing the first quarter a low interest rate scenario, but now we expect by the year end of 5.5% SELIC interest rate, and this of course will bring impact here to financial market with margin with client, especially on the working capital of the bank, but also, there is of course a pass-through to some credit lines depending on the competition, depending on our capability to pass through those impacts.

So I believe our mix will bring a sensibility to be a little bit below, while you see here of 9.2%, I don't believe we'll go back there easily. I think it's a long run to get back there for the many reasons I mentioned. Okay. So this is one of the points. The second one, on the asset management, it's very important to understand what happened. And I think it's our responsibility here to be very clear about this.

What happened -- first of all with the reduction of the interest rate, we saw clients asking to chain products for simple product. So simple mark -- money market funds to deposits, to deposits and to treasury products within the bank. So just to give you an idea, what we lost in this traditional product on the asset management 75% were recurring deposits in the bank. So if you look our deposit, you see a major growth and the reason why was because everybody was very concerned about the crisis and the pandemic.

We saw some effects on those credit portfolio assets product. We had a lot of volatility in a mark-to-market that was hitting a lot the profitability of those assets of those firms. And there is a huge migration to fixed income products within the bank. So this was the first topic. On the second hand, we've been increasing products in our asset management to deliver more alpha to our clients. And as we deliver more alpha, we have more performance fees and we bring more volatility to this income line. What happened when we look this quarter compared to the third -- last quarter of last year and first quarter of 2020 that we lost around BRL40 million a little bit less in performance fees that we had in the last quarter, and then we had in the first quarter of 2020. And this explains a little bit about why we had this reduction here on our income statement. Our expectation is that on the coming quarters, we will be able to deliver a better performance fees, of course, it depends on market, it depends on our alpha generation, but we are positive about the teams and we do believe that we'll make an important recover.

So, first migration from assets to the bank, fixed income and of course we lose income when we do this migration, it is expected to be like that, whenever it -- we have increase in interest rate, and we expect this by the year end we may see again a migration from this product to traditional asset product, even though clients are looking for more riskier products, and that's why we grew a lot our capacity to deliver those type of firms that will generate more volatility but more performance fees in the coming quarters. This is our expectation. I am not sure if I made myself clear.

Q - Jorge Kuri {BIO 3937764 <GO>}

Yeah. Thanks, Milton. And I guess let me go back to the first question if we quantify this. And I think you were looking at the consolidated margin, which is fine. I was looking at Brazil, but let's do it on the consolidator margin. So you're at 7.3% now, you said, it will be difficult to go back to 9.2%, even if rates more than double from the current level. But, say rates at the end of 2022 are at 6% and that means that your margins maybe you pick-up 100 basis points, you'll go from 7.3% to 8.3%, 8.5%, it's still below the 9.2%. That on prices and an improvement in prices is roughly a 15% improvement in prices, and if your volumes next year grow on average 10% which seems pretty plausible under a recovery scenario. I mean, right there, you're talking potentially about a 25% NII growth. Is that within expectations, is this realistic, wherein these numbers you think I'm over or understating the math.

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

No. I think the math is correct, I cannot say anything about the math. The only thing is that will depend in the way our portfolio will improve in terms of mix in the coming quarters. So I have difficult to tell you now, what is the projection, but I do believe that the math (inaudible) that means if we maintain the same level of mix that we have you are correct. The question is how the mix will improve in the coming quarters and we don't have the answer now, but we'll keep track on that.

Q - Jorge Kuri {BIO 3937764 <GO>}

But from just a top-down perspective with COVID behind significantly lower interest rates today, hopefully, the economy growing wouldn't a risk on mode be justified over the next 12 months versus the last 12 months.

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

Sure. But we have to put in perspective the competition as well and how the market will evolve. I do believe so that we have the opportunity and we may be able to increase the margin in the coming quarters. But again, we have to think a lot about the mix and the competition. So I am positive but we have to keep this on track.

Q - Jorge Kuri {BIO 3937764 <GO>}

Got it. Thank you, Milton. Very clear. Thanks.

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

Thank you very much. Thank you, Jorge.

Operator

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

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

Hello. Good morning. Two brief questions from me. One is if you could give us an update on the XP transaction, if there's anything new that we should know or dates that you have for the closing. And, second we noticed that there was an increase in provisions for labor claims, they almost doubled from last year. Any particular reason for it and what should we expect going forward? Thank you.

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

Thank you, Carlos. Talking about XP, we had the expectation by the end of January to have the approval of the Fed so we could make the spin-off. We didn't have the approval yet. We may have in the short-term, but I cannot control this process. So this is something that we are expecting here our decision. Okay? Let's see that, we have any news by the end of this month or maybe so. We already sent out the information we needed for many months, and now we have to wait their approval. So we don't have any new specific on that.

On the labor side, the reason why it's exactly the restructuring non-recurrent provision that we've made within the balance sheet, and where we reinforced as we are simplifying the way we serve our clients on the retail side. We may have an impact on the labor side that's why we've made more provisions. But this is completely related to the non-recurrent provision we've made in this quarter.

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

Okay. That's very clear. And on XP there is disapproval from the Fed but also your negotiation with XP itself regarding transaction, any news there?

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

No, on the XP side they made a communication to the market this is a negotiation among the stakeholders, we are not involved anymore after the spin off. So, it's our shareholders with XP shareholders, this is a negotiation that doesn't have to do directly with us. I think they made this communication to the market that they're willing to make an incorporation offer in market conditions, but we have to expect that to be materialized, but this again is a discussion about between shareholders were not involved in that, the only part of the process that we are involved is with Fed approval.

A - Pedro Moreira Salles {BIO 1784000 <GO>}

Very clear. Thank you so much.

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

Thank you very much.

Operator

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

Q - Geoffrey Elliott {BIO 15944940 <GO>}

Hi. Thank you. It's Geoffrey Elliott with Autonomous. A couple of questions. Firstly on iti, what you're doing in terms of digital bank separate brand trying to go after different clients. It sounds a bit like, what Bradesco has been doing with next -- the last few years. And I know that you've been critical of that strategy in the past and said, it wouldn't be right for Itau. So can you help us plus understand what you're oing that is different?

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

Okay. Thank you very much, Geoffrey for your question. As we said at the very beginning, our strategy was to have account, payment account platform. We evolved to a full digital banking experience to our client. This is something that it's made within the bank. So this is not separate from the bank. And this is one of our offers and business model to deliver a different experience to the clients that have the profile that I mentioned before.

So this doesn't mean that we decided to have a full digital bank separate from the bank, because it's inside the bank. This is somehow, the evolution of our transformation process, where we can deliver platforms and business like this. And we kept very focused as you saw in the previous slide on our digital transformation. And we'll be delivering if necessary, if there is demand from clients different digital platforms and businesses in the future, the same way we did with iti. But this is something a specific way and a value proposition for young and no banking clients. This is basically that. So, this is our business inside Itau that has this profile and characteristics.

Q - Geoffrey Elliott {BIO 15944940 <GO>}

Thank you. And then the second question, current account fees obviously down during the quarter. You mentioned there the impact of money transfers becoming free. Are you seeing any evidence of customers downgrading their checking account packages because the DOC and TED transfers, they can get them free anyway, so they don't have to pay for a more expensive package to access those.

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

Perfect. I think there are two answers for your question here. First of all, we are changing the packages what we have and trying to bring new features that are much more aligned with the needs of the clients, as we have the capability to buy on a wholesale side. And somehow embed in those -- on those packages a much more interesting feature for the client. So we are changing its DOC and TED was something very relevant. We are bringing new features so the client can serve and keep the package, if they wish.

On the other hand, we have a very-very clear suitability view to our clients and this is the approach. So we will be migrating clients that don't fit to our specific package even though, we lose revenues in the short term. So the idea here, again, it's invested in the lifetime value of the clients, suitability and to migrate package that are not confirmed with the usage of the clients. So we'll try to reinvent some packets and we are doing that in a very positive way. And if the client at the end has not a user of that package of that features we will be migrating him to different packages, cheaper ones. So suitability and the needs of the clients is the most important metric that we look when we make this decision. So this is how our approach, so we expect yes, pressure in this line, in the coming years and we are working towards this view.

Q - Geoffrey Elliott {BIO 15944940 <GO>}

Great. Thanks very much. Thank you Geoffrey. Thank you very much.

Operator

(Operator Instructions) Now, our next question comes from the Thiago Batista with UBS. Please go ahead.

Q - Thiago Batista {BIO 15398695 <GO>}

Hi guys. This is Thiago Batista. Hi, Milton. I have two questions, actually one is a follow-up. But on the first one, on the Portuguese call you mentioned that an ROE back to '19 levels is very difficult or not feasible, and that time the ROE was about 24%. Looking for the first Q your ROE was let's say 18.5%. So do you believe that this type of profitability should be recurring the near future? And the second one, again about the restructure plan. Can you give a little bit more of the details or explain, honestly I've not got correctly the plan, I'm not sure if this is, let's say I think the simplification of your (inaudible) if this is a change in the way of the branch. So if you can give a little bit of more details on this plan.

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

Okay. Thiago, let me try to answer both of your questions. On the first one, I won't give you a guide in terms of return on equity. We are of course working towards if you look, our guidance and if you look something that we released last quarter, the midpoint of our guidance had implied a 17.6% return on equity this is what we gave in terms of guidance.

In this quarter we had a better performance with that. Of course, as you can see, but we don't guide on a quarterly basis. So at the end I will say that I will keep the guidance as the best available information now. And if you look to the midpoint of the guidance again we are talking about 17.6% written on equity this is what we guided for the year. We may have different geographic positions by the year end. But I can give you this is the best information I can provide you right now, which is very much different from what we had in 2019 as you just mentioned, okay?

And on the second -- in your second question, we are integrating the operation and commercial teams of the branches, and this is something that we announced internal including. And the idea here is to have an owner in the past, we used to have two owners here of the branches. The one that was responsible for all the operational area and the one responsible for the commercial area. And we don't believe that this is the best way to take care of our clients. We want someone to own this store. We want someone to be focused here in the attention of the clients and this of course merge of teams have impact and this is the decision we made, and this is why we made the provisions here. Most of it is explained by this decision, this is what I can give you in terms of information.

Q - Thiago Batista {BIO 15398695 <GO>}

Very clear. Thanks, Milton.

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

Thank you very much.

Operator

Your next question comes from Natalia Corfield with JP Morgan. Please go ahead.

Q - Natalia Corfield {BIO 6421991 <GO>}

Hi all, and thank you for taking my question. I have two questions, the first one relates to your dividend. I'd like to know what are the plans for this year and if you could also just remind me of what's going on in Brazil right now in terms dividends because last year you were restricted to distribute more than your minimum statutory. So an update on that. And also in terms of issuance in the international capital market, what are your plans for 2021? You have one of your 81s with a call for next year. So your thoughts on that would be very helpful. Thank you.

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

Thank you very much, Natalia. So, let me go through your first question. Our -- the way we release our dividend policy, it's the same. We didn't change it. But we don't have any restriction from the Central Bank now to pay dividend, but we still keep with the same policy of paying what exceeds the 13.5% of level 1 capital. So the payment that we made in this first quarter was 25%, which is the minimum regulatory and statutory dividend payment. And it will depend in how fast we reach the 13.5% to pay the exceed amount.

So, the idea here is to keep this 25 until we reach the 13.5%, so then we can distribute more than that. So this is the policy. We kept the policy and we kept the risk appetite for the capital in 13.5% for now. So, this is basically that. And on the international --

Q - Natalia Corfield {BIO 6421991 <GO>}

Just one question for you.

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

Sure.

Q - Natalia Corfield {BIO 6421991 <GO>}

A follow up on the -- when you mean the 13.5%, is 13.5% Tier 1 or 13.5% C Tier 1?

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

Leven 1 so that includes the 81 as well. Okay?

Q - Natalia Corfield {BIO 6421991 <GO>}

All right.

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

So on the second question here on the international market, we don't have a plan in anticipation for what will be our approach. It depends on market conditions. We are always looking for hybrid instruments on the foreign, and local market as well. So it will depend on price, it will depend on conditions. Our teams are always talking to the market, having here propositions, understanding where the market is. We like to diversify our investors base. I think it's important to have bonds in the local market and in the offshore market. But it will depend on market conditions. So, our debt capital market team will be following up every opportunity. There is an opportunity to do something in the international market we'll be doing that, but it's difficult to anticipate. Now, it will again depend on market conditions.

Q - Natalia Corfield {BIO 6421991 <GO>}

All right. Thank you. Very clear.

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

Thank you very much, Natalia.

Operator

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

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

Well, thank you all for the questions, for the interest in participating in our conference call. As you saw, we changed a lot and we provide a lot of new information here. I hope to catch up sooner. Stay well, stay safe. Thank you very much. Bye, bye.

Operator

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