Transcription—1Q25 Results

Renato Lulia Jacob (Group Head of Corporate Strategy, Investor Relations and Corporate Development)

Hello! Good morning, everyone! I am Renato Lulia and it is a pleasure to have you joining us at another Itaú Unibanco quarter earnings conference. Milton will explain our performance and earnings for the first quarter of 2025, in a new format, from Itaú BBA's auditorium at Faria Lima headquarters in Sao Paulo. Then, we will host a Q&A session, in which analysts and investors will be able to interact directly with us, from the studio, which is right next door to the auditorium.

I would like to give you some instructions to make the most of today's meeting. For those of you who are accessing this via our website, there are three options for audio on the screen: the entire content in Portuguese, the entire content in English or in the original audio, and we will have simultaneous translation in the first two alternatives. To choose your option, all you have to do is click the flag at the top left corner of your screen.

Questions can also be forwarded via WhatsApp to the number appearing on your screen. Today's presentation is available for download on the hotsite screen and, also, as usual, on our Investor Relations website.

That is it for now from me. Now I will hand over to Milton, and we will meet later next door in the studio for the Q&A session.

Milton, over to you!

Milton Maluhy Filho (CEO)

Good morning! Welcome to yet another earnings presentation. Let's talk about the earnings for the first quarter of 2025, with two key changes. First, we have changed the presentation format itself, to make it easier for you to understand it and to deep dive. And I will also talk about some disclosure changes we have made, both in the "Credit Portfolio" chart and the service and insurance revenue breakdown. In addition, throughout the presentation I will also highlight the impacts of implementing Resolution 4,966 in the BRGAAP accounting practice, and I think I will be sharing good news. Now I will get straight to the point, starting with the results highlights.

This traditional chart shows the managerial recurring earnings, ROE (both in Brazil and on a consolidated basis), pretax earnings, NII with clients, and efficiency and capital ratios.

Moving forward, this quarter we delivered a recurring managerial result of R$11.1 billion, a very sound result, with a 2.2% growth compared to the last quarter and almost 14% year over year.

When we translate this result into profitability, in the first quarter of 2025, we delivered an ROE of 22.5%% on a consolidated basis and 23.7% in the operation in Brazil. Both indicators grew on a quarterly and annual basis. By adjusting ROE by risk appetite capital (which is 11.5%), for the operation in Brazil, we get a 25.9% ROE. This indicator is more comparable with our peers, given that our capital ratio is still slightly above our risk appetite. On a consolidated basis, our

ROE is 24.4%. So, we continue to deliver very sound profitability, very high returns, and very positive earnings for the quarter.

Even more importantly, we should look at the quality of our result, its composition. I mean the results "from the inside out". EBIT grew 6.5% in the quarter compared to the fourth quarter of last year and 16% year over year, reaching R$16.7 billion. This means that EBIT grew more than R$1 billion quarter over quarter.

Our margin with clients was R$29.4 billion, also a very sound result, growing 3% compared to the last quarter of 2024 and almost 14% year over year. In addition, we were able to deliver the lowest efficiency ratio threshold in the bank's history, at 36%, and naturally, taking into consideration first quarter seasonality, this is also the best first quarter in the bank's history in terms of efficiency ratio.

We closed at 38.1% on a consolidated basis, a major improvement compared to the fourth quarter and a slight year-over-year improvement. As for the operation in Brazil, this represents a 240 basis points improvement and we also posted an improvement of almost 100 basis points year over year.

All this while maintaining a very sound capital base. We closed the quarter with a 12.6% CET1 by offsetting absorbing regulatory impacts and the payment of the additional dividends incurred in the quarter, which consumed 110 basis points of capital. I will give more details about this later. Therefore, on a pro-forma basis (by adjusting for the impact of the additional dividends in the fourth quarter), we posted an expansion of 30 basis points compared to December 2024. Compared to March 2024, we posted a lower CET1.

I will now present to you the credit portfolio performance in 1Q25 compared to 1Q24. As you can see, the individuals loan book grew 8.6%, the SME credit portfolio grew 17.7%, and the large corporate loan book grew 13%. I am going to make some comments to explain some of the changes we have made to the credit portfolio chart so that you can understand them better.

There was no change in the individuals loan book whatsoever. This portfolio grew 8.6% driven by the growth in credit cards, personal loans, vehicles financing, and mortgage, while payroll loans are still under pressure due to the interest cap for the INSS beneficiaries' portfolio. The payroll loan origination for INSS beneficiaries has naturally reduced, given the level of funding costs.

Further, the financed credit card portfolio in the quarter grew 8%. In the last quarter, there was an increase in the volume of transactions due to end-of-year shopping and now, at the beginning of the year, part of this portfolio begins to be financed, thus starting to yield interest, and this affects our margins significantly as well.

Now I will put a little more emphasis on some changes. The first point is that we have also adjusted past figures for comparable reasons. Let me now comment on the most relevant changes: we had an important Agribusiness portfolio, which we had always classified as large corporates because this was the segment where this business was managed. However, over time, this portfolio has been segmented into different companies. We reclassified these companies to the SMEs portfolio based on their annual revenue. We have disclosed all the details in the footnote to the credit portfolio chart.

We have also included in the chart the "Receivables Investment Funds", which, at the end of the day, are securities established for credit purposes. We have also included the exposures to financial institutions, when we have these banks as clients. This does not consider the certificates of interbank deposits, or CDIs, to manage liquidity in the system – here we consider credit-like instruments with these banks. We have also included in this chart the credit-like transactions operated by our trading. Again, you have all the details disclosed in the footnote to the credit portfolio chart.

So, if you analyze the portfolio, you will see that the SMEs loan book posted a drop of 2% in the quarter, the portfolio of large corporates drops 1.8% and the total of Brazil drops 0.8%. However, it's important to exclude the FX effects on the portfolio as a whole. Instead of falling 1.7%, the total portfolio would have fallen 0.2% excluding FX impacts. This shows the portfolio's sensitivity to foreign exchange fluctuations.

Instead of falling 2%, the SMEs portfolio would have fallen 0.6% excluding FX impacts. And the large corporates portfolio would have dropped 0.5% and not 1.8%. Instead of falling 5.5%, the Latin America portfolio would have fallen 1.3% excluding FX impacts.

The average balance of the credit portfolio is what impacts NII for the period. The chart that I will show you next highlights this message. So, when we look at the average balance of the credit portfolio, individuals posted growth of 2.1%, SMEs grew 5.5% and large corporates was up 2.1%. So, the average balance for the period grew 2.3% and this is what generates revenue and, consequently, net interest margin. This takes away a little of the seasonality and the FX rate effects that I explained in the previous chart. The average balance, therefore, is the best information available to analyze the NII.

Next, we present the traditional margin chart, where we show the NII figures in billions of reais at the top and below the NIM which is the annualized average margins. I will start by focusing on the NII with clients, in which we have two major effects. The first one is the working capital, which posted results of R$3.2 billion in the previous quarter, and now for the first quarter of 2025 it has generated results of R$4.0 billion.

When we look at the spread-sensitive margin related to the loan portfolio, that is, the core margin, we have a few effects. The higher volume had a positive impact of R$300 million, out of R$900 million in total growth as shown here on this slide.

As regards the product mix, for example, the increase in financed credit card portfolio, which I showed earlier, affects the mix because this is a portfolio with a higher spread. The segments mix between large corporates, SMEs and individuals also impacts this line along with the product mix within these segments. All of these affect this line and resulted in a positive result being posted for the quarter.

We have consolidated the spreads and the liability margin impacts. By spread here we considered both credit portfolio spreads and also the liability margin spread, from which we have also obtained a positive effect.

A key issue to be considered in the NII is the calendar effect. This quarter we had fewer working days and fewer calendar days. This has affected both the asset side (or the credit side) and the liability side of the business, depending on the metric used and how we manage and monitor them. The calendar effect shows that this seasonality removes R$500 million from our earnings. We would have posted very strong growth if not for this seasonality due to the calendar effect.

Analyzing the impact shown in the bar "Latin America and others", we have had both positive and negative effects. This line also recorded the positive effect of about R$100 million due to the stop accrual change with the implementation of Resolution 4,966. This effect is included in this line named "others", and I will detail it soon when we talk about the margin. We have always been very disciplined in managing the stop accrual, therefore the effect of the change in stop accrual from 60 to 90 days was positive for our margin, not negative. This is a key point to be taken into consideration.

Moving on to the annualized average margin, here are some highlights. First, there was a significant increase in the consolidated NIM, that reached 9%, and a significant increase in the risk-adjusted NIM, that reached 6.1%. This dotted line in the 5.8% is just to remind you that in the third quarter of last year there was a credit provision reversal amounting to R$500 million before tax related to the case of that retailer currently under Chapter 11. This layout helps you analyze the trend over time.

This is the best risk-adjusted margin we have ever posted since the fourth quarter of 2019, which is the quarter immediately preceding the first quarter of the pandemic.

The story is no different for the operation in Brazil. We have reached NIM of 9.8% and risk-adjusted NIM of 6.6%. The one-off effect from the retailer we just talked about stands out more because the transaction is booked in Brazil, which again shows an important margin recovery trend. I always tell you that the way the bank is managed is reflected in the risk-adjusted margin. Growing revenue generating margin is challenging, with a certain degree of difficulty. Our focus is on making the risk-adjusted NIM grow because that is what remains at the end of the day, net of the cost of credit.

Moving on to the NII with the market, we can see a steep increase for the first quarter, to R$900 million in total, broken down into R$1.2 billion in Brazil, R$200 million in Latin America, and a Capital Ratio Hedge cost with a negative impact of R$500 million.

The next question would be: "Come on, Milton, the midpoint of the guidance released for the 2025 earnings is R$2 billion. In the first quarter, you made practically half of this total. Were you conservative in your guidance for 2025 results on NII with the market? What is your view on it?" Well, we reiterate the 2025 guidance. We had an exceptional trading result in the first quarter, which may not be repeated going forward. We monitor our ability to create value and generate alpha in trading, and this quarter was above average. So obviously we are working hard to deliver better results.

In addition to that, the Capital Ratio Hedge cost is expected to rise a lot over the next few quarters. Therefore, we will still see these effects on the NII with the market, which leads us to expect that we should end the year a little above the midpoint of the guidance, which is R$2 billion, based on our best current projection. This is still our best expectation. We continue to work on it. Projecting the margin with the market is hard. Despite our track record, we anticipate that some effects, especially the Capital Ratio Hedge cost, will widen, given the interest rate spread. But we reiterate our guidance. I know this question will come up, but I wanted to anticipate this issue while presenting the NII with the market.

Next, we present the commissions, fees and results from insurance chart, where we have made some changes. The first change is regarding the acquiring business. I have been telling you for several quarters now that we have been reconsidering the way we disclose the acquiring business results, since it makes no sense to disclose them separately from payments results. Let's not forget that part of the acquiring business revenue is recorded in this chart and the other portion is recorded as NII with clients. The portion of acquiring results recorded as NII has not changed, but we have consolidated the acquiring results recorded in the commissions and fees chart under "payments and collections". As of now, the credit and debit cards results consider only the issuance operation.

In addition to the acquiring business, we also consolidated under "payments and collections" the revenue from tariffs collected from corporate clients as "packages". Before, it was consolidated in the "current account services" line. This change was made to better reflect the way we manage the bank.

All in all, we brought to the "payments and collections" line the acquiring business results that were considered in the "credit and debit cards" line, and also the tariffs collected from corporate clients' packages, which were in the "current account services" line before. Therefore, card issuance business results were isolated and the same to current account results for individuals. These are the main disclosure changes.

We have also a second-order effect, which I'd already anticipated when we disclosed the 2025 guidance at the beginning of the year, regarding some deferrals that would be made in some of these lines when applying Resolution 4,966.

If we excluded this effect from Resolution 4,966, we would have grown 6.5% year over year, instead of growing 5.6% as presented in the chart. Revenue growth depends a lot on the economic activity. We posted a weaker DCM, since it was record-high last year. We have been able to deliver earnings from asset management, but the performance fee is only recorded in the second and fourth quarters. So, there is a seasonal effect in the first quarter when we compare it with the fourth quarter.

Our growth in commissions, fees and insurance is well within expectations and very sound, in line with what we have been seeing in terms of activity momentum. Better momentum in the capital market, and even in the asset management business itself, will certainly create more opportunities.

The insurance operation has been at a very sound growth level, and, after several years of expansion, we continue to find opportunities to improve our results and the insurance business.

Next, I am going to talk about the cost of credit and the delinquency rates. I will first address the short-term NPLs, both on a consolidated basis and in Brazil, and then we will talk about the long-term NPLs. And here we already have some adaptations emerging from Resolution 4,966.

Starting with the short-term NPLs, when we look at the consolidated figure, we see that it is very well-behaved. Let's not forget that usually this quarter shows greater pressure on short-term NPLs, especially because this is a period when households have more taxes to pay, school tuition, and some end-of-year shopping payments are pushed forward to the first quarter. As a result, seasonally this quarter puts a little more pressure on short-term NPLs. I am going to show you the breakdown of the figures for the operation in Brazil and you will see that our short-term NPLs are very well behaved when compared to previous quarters.

Here, we introduce the short-term NPL ratio by also including securities in the denominator. This is the new methodology introduced by Resolution 4,966 and shows that the ratios also continue to be well behaved.

When we look at the short-term NPLs of Individuals, we see they increased by 26 bps. Last year this increase was lower, and we have still observed some effects of the portfolio de-risking. However, when we compare this ratio to the historical average, this increase is at a level below this average, which is very sound and consistent.

It was no different for SMEs. The NPL was very well behaved (and I will show you details of it in a moment), and the ratio adjusted by securities also shows a very low short-term NPL ratio.

Naturally, the figures for large corporates are lower. I always tell you that it is much better to analyze the credit portfolio considering loan by stage instead of the NPLs, especially for large corporates.

Probably you would ask me about the long-term NPLs, so I am going to answer it right away. We continue to have very well-behaved NPL ratios; the best in the bank history in all segments and here we also show the ratios adjusted by securities.

When we zoom in the operation in Brazil, you will see that there was a drop in the 90-day NPL ratio for individuals. This is the best ratio ever.

In the SMEs business, we also see a major improvement in this ratio, adjusted by securities, and you see that there was a discontinuity, since we had been operating between 2.3% and 2.5% levels, and here we have two relevant pieces of information. This ratio, at these low levels, between 1.6% and 1.8%, is not sustainable for two reasons: first because of the production volume both in the fourth quarter of 2024 and the first quarter of 2025 boosted the denominator. And also because of the portfolio mix, which was built up mainly with government programs with grace period. Therefore, the denominator is affected (by a higher credit portfolio) while the numerator (overdue loans) is not. This effect will normalize throughout the year and our best expectation is that it will return to the levels of the third quarter of 2024 and back. Absolutely well-behaved and within our appetite, without any kind of specific concerns. Naturally, considering today's data and market inputs. But, just to make it clear to you, over the next few quarters we will see a normalization of this ratio which, in fact, due to this effect, is much lower than our actual expectation.

In terms of cost of credit, it reached R$9.0 billion in nominal terms. The cost of credit over the total loan book reached 2.6% considering the new credit portfolio, which is flat when compared to the previous quarter. For comparison purposes, it is best to consider 2.7% in the first quarter of 2025, which considers the same criteria for the loan book as the historic series.

When we go to the write-offs, we can also see a relevant effect, resulting in a drop. We have done the de-risking process over the years, so first you go through the short-term NPLs, then the long-term NPLs, and then you get to the write-offs. Therefore, we have not changed any criteria, and this is very important to keep in mind. Resolution 4,966, currently effective, allows some additional degree of freedom, especially to address the write-offs and to recognize a provision of 100%. Our vision remains exactly the same. Despite the degree of freedom, we have kept our logic unchanged, since this is our best expectation of recoverability or actual loss on a given loan; therefore, as a general rule, we continue to use 360-day terms. Resolution 4,966 breaks down by product clusters but the main message for you is that there has not been any change in criteria.

Had we changed the criteria, the write-off would have been longer, it would take more time, and the NPL ratios would have gone up, but we would have had a momentary benefit from better credit costs. So, by doing a backtest, if we had applied the degree of freedom of Resolution 4,966 to our 2024 credit cost, we would have had a cost of credit 10% lower than last year's, which is not small.

Therefore, we didn't change the criteria. We continue to be very disciplined and to manage the bank based on expected losses and not on incurred losses. We continue to take into consideration our best expectation of loss materialization and, therefore, 360 days is the statistically best input we have to support the write-off criterion that we have been using. And it is much more consistent with our management.

At this point, I'd like to take a break, since this is a new chart and I have some messages to pass on to you. From now on we will start tracking credit quality for stages two and three, so I am going to zoom in on each of these stages. Not only to show how our portfolio is distributed but also to show the coverage by stage.

Let's start with stage two. We see that 8% of the individuals portfolio in Brazil is classified in stage two, as well as 1.8% of corporate portfolio, 4.6% of Latin America, and 4.3% of the total portfolio.

And the additional data introduced is what we call coverage by stage, which is a very important indicator. It's the balance of allowances for expected loss for the portfolio classified at that specific stage. In this case, we have an allowance balance for the individuals portfolio of 26% classified in stage two, which was 24.5% last quarter. The first message to get across is that this is a major change in the way we handle the stages and we have some degree of freedom or discretion in how to carry out this rating.

Since the bank has always worked with expected losses, and this is why at the end of the year there was no impact on the cost of credit and on stockholders' equity because of the change in methodology, we just maintained the expected loss (and not the incurred loss) approach. This difference is very important. And how do you observe this? If we add up the stage two portfolio and the stage three portfolio, which I will show in a moment, and compare the outcome with our NPL ratios, which apply either to short term or long term, regardless of the analysis you want to make, you will see that both in stage two and three are virtually double our actual NPL. This shows how rigorously we measure these stages. If it was only by NPL, and therefore the figures observed here were identical to the NPL figures, it wouldn't make much sense to have the stages. In much simpler terms, we have the short-term NPLs in stage two and the long-term NPLs in stage three. In addition, we also include in stage three any credit deterioration, renegotiations, problematic assets, and restructured assets (which are those renegotiated after becoming 30 days overdue or those renegotiated twice, even if not overdue). When we acknowledge a change in a client's credit risk, even if it refers to performing loans and there are no overdue payments, which is particularly the case for companies, we classify it in stage two, and depending on how steep the movement is, it goes to stage three.

Stage indicators are very important, and I think it' going to greatly improve comparability to see that we have provisioned for expected loss, which is why our stages are higher than our current NPL ratios.

Another key issue is what we are calling coverages, which ends up depending a lot on the mix. I will give you an example. If we have a mortgage loan payment overdue by more than 90 days, it goes automatically to stage three. But because the loan is guaranteed by the property, we do not need a 100% allowance balance just because it's in stage three.

This is why it's very important to understand the underlying mix. A company whose rating is downgraded is automatically classified in stage two before going to stage three, because it did not become a problem asset. I may have collaterals, so my allowance may be lower than the balance classified in this stage. In individuals, we have 26.1% coverage in stage two, while for companies, the coverage is 22.9%, and in Latin America it's 16.6%.

In stage three we have 5.8% of the portfolio of individuals, 3.5% of the portfolio companies, and 4.3% of the portfolio of Latin America, that is, 4.4% of the total portfolio is classified in stage three.

And when we look at the coverages, we see that they are already higher coverages because they refer to problem assets, which underwent more renegotiations, or restructured assets that automatically end up in this stage. And bear in mind the comments I have made about coverage, mix, and type of product.

Another important point is that despite the change in the standard, we have not changed the way we manage the bank, using the expected loss model. So, deep down, this is a consequence of everything we have already been doing over the years. In other words, if we had to reprocess that traditional coverage ratio, which took into account the allowance balance for payments past due more than 90 days, you would see stability, because nothing has changed. This is a consequence of the changes and not because we had to change the way we manage the bank's allowances and loan portfolio. This strengthens our suitable risk management criteria, rigor, and discipline, in particular when compared to the rest of the market. You can see this in our figures. Whether in the change of the stop accrual approach, with a R$100 million positive impact on our margin, or in the reclassification of portfolios as I have commented previously. In the end, all this is a reflection of better risk management.

As regards the non-interest expenses, we have also changed the disclosure to be more in line with the way we manage the bank.

This is an interesting chart, and I would like to give you some insights from it. First, we classify in the personnel expenses line all expenses in the commercial and administrative areas. Next, we have the transactional expenses related to the entire bank infrastructure and operation, that is, the entire portion of expenses on fixed assets, branches, and infrastructure to run the bank. In the technology expenses line, we are including all expenses on IT personnel and infrastructure. In other words, this line includes all those technology employees allocated to the community. Finally, we have the other expenses line.

Year over year, non-interest expenses grew 8.2% in Brazil and 9.8% considering also the Latin American operations. In other words, everything is absolutely within what we had already expected, and this line will converge within the guidance range throughout the year.

But the most interesting thing is to observe the time series that we have included in this presentation, despite the baseline comparison effect. When we look at personnel expenses from the commercial and administrative areas, we see that the actual growth of these expenses has been only 0.6% per year over the last ten years, in a deflated series, that is, very much in line with what we have been doing with regard to the management of the bank's teams.

As for transactional expenses, we also have an interesting fact. We have posted a drop of 12% per year over the last ten years. This translates into a deflated development equivalent to a 68.5% decrease in the period with the exponential effect of a negative change over time.

This shows that we are managing to obtain an important reduction in transactional and infrastructure expenses, while we have invested in technology, and good team management, therefore, increasing the bank's operating leverage. And this is reflected in that efficiency ratio of 36% in Brazil, which you have seen just now.

And when we look at technology expenses, it is very clear that we have been posting growth of 5.3% per year in expenses over the last ten years. This considers all the systems modernization, all the investments in our platform, and all the investment in product and digital actions, among others. In other words, we are perfectly consistent with our strategy of having a completely modernized and much more agile bank, with incredible experience and with a much better operating scale and leverage.

This is why I think this chart perfectly summarizes our strategy.

Let's move on to the efficiency ratio that I was commenting on. We have reached a consolidated efficiency ratio of 38.1% and an efficiency ratio of 36% in Brazil, which is the best ratio in the time series. And in a series not as long, from the first quarter of 2019 to today, we can see exactly how we have been able to make progress in terms of efficiency ratio, whether through a more efficient operating leverage management, with more investments in technology, or through our ability to generate revenues. Our figures are very good, and we are very pleased, but we still have a lot of work to do.

The good news is that we still have a lot of opportunities to chase, and we will continue to be very disciplined in the bank's cost management.

In closing, let's talk about capital. Here we show that we came out of a CET1 of 13.7% in the fourth quarter of 2024, we had the payment of additional dividends with an impact of 110 basis points, and, as a result, we reached a CET1 of 12.6%. We had a contribution of 60 basis points to net income for the quarter, showing that our ability to generate capital with profitability remains very strong, and this made it possible to neutralize the impact of risk-weighted assets (such as market, operational and credit risk) and to absorb all regulatory impacts with this increased capital generation capacity.

We have dedicated teams in-house that are always looking for opportunities to increase capital efficiency. Therefore, all the operational risk capital and all the credit risk capital and structured operations that increased in this quarter were absorbed with the capital generation for the quarter itself. Thus, we reached a CET1 of 12.6%, which is a very sound threshold.

With everything remaining constant, we will work hard to be able to pay more additional dividends. As we always say, our goal is to pay recurring additional dividends, and that is what we have been working on. All the planning we do is carried out with a lot of discipline, while monitoring the existing scenario, our growth capacity, regulatory impacts, etc. All these factors are taken into consideration, while the bank continues to have a very sound capacity for generating capital.

With that said, I end my presentation here. I'd like to end with two takeaways for you. First, as you have seen, this quarter we posted very sound results, of a high quality.

I think it is important to look not only at our bottom line but also to understand the entire mix and the effects that have led to it. We have posted significantly higher revenue, a major growth in EBIT, an efficiency ratio at its best levels, and a reduction in the cost of credit, in short, a quarter with very well-behaved indicators.

As I have always said, we have never been so well prepared to face whatever challenges lie ahead, whether for the quality of our portfolio, the level of provisions in our balance sheet, and a huge level of compliance with the new standards, which shows that, at the end of the day, managing lending using the expected loss approach, as we have been doing for many years, has generated consistent results. There were no transfers among line items, there was no discontinuity in the financial margin, and all the other effects I have already mentioned were taken into consideration, which is very positive.

As you can see, I am in the auditorium, and I am going to need a minute to join Renato, who is waiting for me in our studio for our Q&A session. In the meantime, we will show you our new campaign that we are launching, which basically reflects everything you have seen in this presentation, especially regarding the investments we have made so far. Over the years, we have invested a lot in the bank. We always talk about institutional marketing and large institutional campaigns, but we have made an important change: we are increasingly talking more about our products and our business lines. While, naturally, being very careful in what we say and backing all the investments made by our brand, which is the most valuable brand in Latin America.

This new campaign has some very important attributes. The first is to communicate to the public what our activity and our daily life is, that is, working to simplify people's lives, provide good product experience and good business experience, and solve client problems.

This new campaign shows this, and you will be able to see the number of products that we have been launching as a result of our capacity for innovation and modernization achieved over the years.

Also, we reclaim a word that has been very important to us for many years, which is “done”. We used to talk about “made for you,” then we evolved to “made with you,” and then we launched “made of future.” And now we think that to make it simpler and make this delivery tangible, the time has come to use “It’s done”, and this is what you will see in this campaign.

I hope you like it, because here at Itaú, when we deliver a product, we deliver a solution: it is done. Thank you, everyone! Now I’m going to join Renato, and we will talk in a little while. See you later.

Q&A

[Renato Lulia]

Thank you, Milton. The format of the presentation is very good and I hope that you, who are watching us from home or the office, liked it.

The video of the new campaign that you'll frequently see on TV is also very cool. Well, let's start with the questions and answers session. Besides Milton, Gabriel, our CFO, is also here with us today.

Welcome, Gabriel, to the earnings call. Let's just remember that this session is bilingual as always, that is, we'll be answering questions in the language they are asked.

In the case anyone needs some kind of help in the translation, you'll have the option to choose the audio either in Portuguese or English. As always, you can send your questions via WhatsApp to (11) 93219-8835. Well, the list of participants is already very long, analysts connected with us raising hands. So, without further ado, shall we begin? We have the first question on the screen and it's from Daniel Vaz from Safra.

Daniel, good morning, thank you and welcome to our earnings call.

[Daniel Vaz]

Thanks, good morning Renato, good morning Milton and Gabriel. Congratulations on the results.

I have two questions here and I want to ask about growth. It's easy to believe in the narrative that a bank the size of Itaú tends to better defend its market share. Discussing with investors we sometimes hear that it's difficult to imagine that Itaú is able to actually compete with the neobanks in some mass segments.

And in contrast, we already heard from you that the Bank wants to be an attacker in some fronts. I don't think you mentioned it at Itaú Day. So, given the great level of quality of assets we see and the good capital generation, should we expect a bolder position from the bank in 2025? And the second question, in connection with this, how can we expect Rede to operate in some niches where Itaú has less market share, maybe S&M (Small and Middle-Market Companies), Companies1, Companies2, in 2025 or looking up ahead? Thank you very much!

[Milton Maluhy]

Thank you, Daniel. Thanks for the question. It's a pleasure to have you here with us today. So, it's two questions. I'm going to start first by credit.

We cannot forget that we achieved the highest level of interest rates of the last 19 years, 14.75%. It's naturally not just an issue of offering. There is also a demand that is reducing when we see the different business. We have had great opportunities. We have managed to increase the portfolio and the portfolio should grow significantly in all segments this year.

So we continue to be highly dedicated and focused on our risk management and portfolio management. We select very well and, of course, this is a dynamic process, including when it comes to the target groups, I mean, the client segments we want to grow. And we've managed to gain market share and grow two digits.

I believe the boldness comes from that. We continue growing with great emphasis and strength in the audiences that we understand are resilient in longer cycles. From the standpoint of opportunity, I think that we are optimistic, but cautious.

Optimistic because, as I said, maybe we are at the best moment of the bank, balance sheet-wise, in any scenario that we may face. Whether it's a scenario for opportunities, we are ready to rapidly grow and advance, whether it's a scenario for adjustments, we are also prepared with a very resilient portfolio. This capital allocation management with a long-term vision is very important, regardless of the fact that we have very well-behaved indicators, because, in the end, the decisions we make today will support the balance sheet on the medium and long terms.

So, we continue to be highly disciplined. Capital allocation is key, with a really strong quality balance sheet, seizing the opportunities and growing in the segments in which we believe that we should continue to grow, growing two digits. But, what you see in the aggregate is the growth effect and the de-risking effect, which we basically closed in the portfolio last year. But, for the audiences that are not the target audiences, we chose to lose market share. So, when we look at the addressable market, we've gained or maintained the market share in the businesses in where we really want. And, in the audiences that we consider not being part of the strategy, losing share is the best decision that we can make.

So, we're going to see the market moving. It's a lot of business. The bank has a very complex business portfolio. This philosophy is valid for all the business lines. We're very comfortable, the guidance is still our best expectation, and we're very disciplined, I repeat, with respect to capital allocation, reasonable returns, and not only looking at credit, of course, but at the relationship and the comprehensiveness of the relationship with our clients. So, as I said, we're optimistic and happy with what we've managed to do and cautious because the scenario, whether global or local, inspires caution given the changes in local interest rates.

About Rede, about the decision to integrate it, which is not simple, I've been there when Rede was a listed company, and I was present at the delisting process, this integration was carried out in an impeccable way. I don't like self-compliments, but, deep down, this was a process very well conducted by the bank's teams, and the integration was so soft, so seamless that we can see Rede today as another service for receivables that we have in our offering of flows in our packages.

The integration of Rede into the bank, the way that the bank's managers in all the segments discuss about the acquiring services in the receivables and payments flow package, provide an unbelievable synergy. Then we move from the discussion on monoliner, monoproduct, to the discussion based on the client vision, which is the correct one. But I'm never going to talk with my client about acquiring services. I'm going to talk with my client about what they want to do.

It can be a talk about credit, where receivables are important, or it can be about services where Rede is, by itself, the best option. So, this integration of the bank's commercial teams along with Rede and this unification has brought very important results. We're very happy with the evolution and, naturally, we will advance in the different segments.

This is our vision. The Itaú Companies (Emps) itself, which is our digital platform for the companies segment to talk to the more digital client, a smaller client, already comes with a solution for receivables embedded in it. We managed not only to increase the number of clients, but to improve the relationship with the existing ones. So, we're very happy with the evolution and the competitiveness of our offer today.

[Renato Lulia]

Thank you, Milton. Let's go then to the second question with Thiago Batista from UBS, who is already on the screen. Thiago, good morning.

[Thiago Batista]

Good morning, everyone. Good morning, Milton, Gabriel, Renato, Gustavo. First of all, congrats on the earnings, another consistent result, increasing the earnings every quarter. Congratulations!

My question is about the private payroll loans. In fact, there are two or three topics about it, but today a list of the six biggest players was disclosed. Of the six biggest players, two are state-owned banks, four are niche companies, and the six together would have today an 80% market share in private payroll loans.

We don't see any of the traditional incumbents among the biggest players. So, I'd like to understand how you see the product. Why don't we see these big players, you and other players, in this business? Do you imagine that a cannibalization or an exchange of a more expensive debt for the private annual cost will take place, or the person can end up piling up both debts. I'll try to understand a little bit about the dynamics you see in this new market, still very small, only a month and a bit more.

[Milton Maluhy]

Great. Tiago, thank you for your initial remarks. It's always good to see you here in our calls.

Well, I'll probably invest two minutes trying to provide some context for private payroll loans. First, our vision is super positive regarding the product. We believe that this product really unlocks opportunities to overcome an operational limitation for the offer of mass-scale agreements.

We've always had large agreements with our companies, for payrolls, but to create this solution through the CTPS (employee's registration card and working papers), a unified solution through *e-social*, is in fact a major change, which makes this market to have a significant growth potential. Let me give you a few numbers that can help you in your analysis.

The first information is that this is today a R$40 billion market. I'm not talking about the R$10 billion disbursed over the last weeks. Of this R$40 billion market, Itaú Unibanco has R$12 billion.

So, we have almost 30% of this market today. Why? Because our penetration in payroll and large agreements is very strong. We've been using this private payroll loan strategy for many years.

When the new payroll loans were created, we offered it since the beginning. If you pay attention, of the incumbent banks, Itaú appears since the beginning, with Banco do Brasil, Caixa and other banks, but when it comes to private banks, we were there since the inception of the concession. It was very important because we've been learning a lot over these last weeks.

And why do I think it's important to provide this counterpoint? The private payroll loan is completely different from any other payroll loan in the market. So, we move from the birthday withdrawal advance as the one with the lower risk and start going down in the chain in different risks. You come to the payroll loans for INSS beneficiaries, then you come to public companies, and then it depends if you take part of the SIAPE (Integrated Human Resources Management System), an agreement with the federal government, or if you are working for a specific municipality.

The private payroll loans are not different. You can be working with a company with an exceptional rating and, therefore, the payer risk is very low. You must carefully analyze the borrower risk, for sure, but you can also be working with a combination of a borrower and a company that doesn't favor you, a risk combination that doesn't improve the expected performance of that portfolio.

I'll give you a number. The monthly wage bill for people hired under the Consolidation of Labor Laws (CLT) in Brazil is R$120 billion. As I said a while ago, the private payroll loans market is a R$40 billion market.

Then, the other R$80 billion is private credit for this base of people subject to CLT. What I want to say is that if you do this same analysis for the payroll loans for INSS beneficiaries and for public companies, the leverage of the credit balance available in the market divided by the monthly wage bill is 4 to 6 times. It means that this R$120 billion can turn into R$300 billion, can turn into R$400 billion in an ultra-optimistic scenario, but it's a portfolio with a great potential to grow, even affecting GDP.

All the economists already include this into their projections, thus impacting consumption. What's our strategy? Strategy number one is to migrate clients to prevent being exposed to the over indebtedness risk, which is a concern we have given the level of income commitment, and the program allows it. And number two, not to depend on someone who has taken out these payroll loans and is being deducted 35% of their salary amount.

Then, when we look at the risks, and we've made a backtest of all the production, I'd say that over 70% of what was produced is not from the bank's account holders. They are clients with whom, in some way, we don't have a relationship or for whom we don't have an appetite.

For the other 30%, we have our funnel. And remember that one of the rules is to check the SRC (loan recovery system) to see if they have a personal loan and, if they do, you cannot grant loans because of the over indebtedness risk.

When you do that the funnel breaks. And then you have the third funnel, the risk funnel, and for us it's a matrix that combines the company risk and the borrower risk.

We clearly define the audiences for which we want to operate and for which we don't want to operate. So, following a risk-based decision, we decided not to subscribe a good part of the loans raised in the market in these last... I’m not saying that this is right or wrong. We manage risk based on our appetite.

And let's remember that many players that are arriving with a great appetite know less about the risk of the companies, which has been Itaú's core business for many years. As we have a good knowledge of the companies, a good risk management in the companies segment, just look at our risk management over the cycles that we completed. I think this is a competitive advantage, because we will lose operations based on a decision, because we don't think that the risk is worth, given the rates charged.

This discipline will be very important. I think that our comparative advantage is the know-how that we developed over the time managing risk in companies. This gives you capacity to make decisions differently.

I think there are significant operational challenges that must be observed next month when the first payments start coming in. Natural evolutions of the platform will actually happen. There is the credit risk itself.

We think that losses will eventually materialize and these defaults will be like those in personal loans, but charging lower rates. So, there is the government on one side, two more active public banks, even to boost the program, and this makes sense, with a growth agenda, each one with its own policy, its own appetite, and there are the fintechs. I think you have to break down into two audiences, isn’t it? They are subscribing and clearly taking more risk due to lack of knowledge. But time is sovereign and we’ll follow the evolution over time.

And I think there are the regulatory aspects, because one of the rules is to check the SCR, which is the risk center system of the Central Bank before granting credit. We’ve seen a number of borrowers obtaining access credit and they were included in the SCR base. But this is a regulatory issue, and Dataprev, the government, everyone is responsible for watching it and determining how to handle those who are operating out of the rule.

So, I think there is a mix of everything. And the final message is: yes, we’ve been building a portfolio, and if you observe in your ranking you’ll find Itaú Unibanco. We have high expectations in this regard. We think that the R$40 billion will grow a lot and we want to get a fair share, possibly lower than the 30% we hold today, probably higher than the R$12 billion in the portfolio that we have today, but with a good net financial margin sustainable in the long term.

So, we consider it a great opportunity and we welcome it. We are expanding and generating credit with better economic conditions for borrowers and this has to do with our lifetime value strategy and with reducing delinquency rates in the long term.

[Renato Lulia]

Thank you, Milton. It was a complete answer about a recurring topic and a question brought up by investors of the market.

Well, the third question, also here with us, from Eduardo Rosman from BTG. Rosman, good morning. Thanks for joining our call.

[Eduardo Rosman]

Hi, good morning, everyone. Congratulations on the numbers, the quality is high. I think it's the result of the digital transformation work you have been carrying out in the last years. My question is: and now? I think that pressure continues to grow, and you are very relevant in an industry with a significant share in economy and an economy that unfortunately doesn't grow very much.

So, how to continue creating more value, surprising the market? Where will it come from? From One Itaú, from the discontinuation of the former bank, from abroad? It would be very good if you could help us here. Thank you.

[Milton Maluhy]

Thank you, Rosman. It's always good to see you again. Well, thanks for your words. Congratulations on the report you've just published. By the way, this is for all of you. We read all the reports as soon as they are released. Thanks for your feedbacks.

Rosman, I'd say that you raised a number of points. When we look ahead, we still see that there are several opportunities. And this opportunity is broken down into the different segments in which we operate.

As the bank, at the end of the day, is a large holding company of capital allocation, with a very diverse portfolio, with unrelated businesses and some related ones, we manage to have a well-balanced portfolio and find opportunities in all fronts. When we talk about the individual business unit, to give an example, we talk about One Itaú, as you also mentioned. We're very excited. In the next quarter I expect to bring some early indicators of what we've managed to do through One Itaú.

It's very exciting to see the initial results. First, from the migration, as of the 15 million clients that we planned to migrate by the end of the year, 8 million clients already migrated. We expect to complete the total migration by the end of the year. A 99.1% migration rate. This is the accurate rate, that is, zero attrition. And the NPS for clients who migrated was over 85. It means, you changed, migrated, no attrition was generated and the client experience is over 85. So, this is very encouraging.

Then you start to offer a full bank to this client who had a monoliner experience with the bank. And this full bank experience has had an enormous value, penetration of products, payment accounts, opening of new relationships and now we start to enhance the range of the bank's portfolio, segmenting very well the bases, as we have clients from all segments. We're very excited with the evolution. Already for next quarter, my intention, as I agreed with Renato, is to bring here some indicators for you to have an idea of what we're talking about.

One part of the increase in individual business unit is a result of this. The second part is market share gains. It means that we really believe that, despite the more competitive market, we have all the conditions to keep on growing.

It's obvious that GDP is important, the activity growth, but we continue to have opportunities to take a share in the market, gain market share in the segments where we really understand that we may have a differential and a different value proposal. And to achieve this we're always in motion. Just to give you one more view of the digital transformation, we modernized 300 journeys in the bank.

300 journeys, experiences in the individual business unit and in the corporate business unit. We recently launched over 18 new products. They are context-based products, products embedded in the journey of our clients and all of them with a robust outcome rather than an output. The level of client engagement is increasing, achieving a very high level of adoption.

We're very excited with our new ability to develop solutions and solve clients' pains with an unprecedented speed. We get surprised everyday with our capacity to generate impact. So, 300 journeys modernized, over 18 products launched.

If you open our Super App, you'll see the campaign that shows a little bit of this. We also have many opportunities in the corporate business unit, client acquisition, growth, market share gains. In the wholesale business we have had opportunities, in all of them we already have a significant penetration.

Our agribusiness has recorded consistent growth. We opened new fronts at Itaú BBA, and all of them are performing very well. So I think we still have opportunities and this is the key point here. I want to welcome Gabriel, who is here officially now as our CFO, from now on with us in all calls, and who, in addition to his several, will lead our cost and efficiency agenda, also looking ahead.

We see here an enormous opportunity to continue to make headway. I think we really should have undergone this modernization process. I talk less and less about it. It's time to turn off the mainframe. That talk about large banks relying on mainframes is living borrowed time. It's still a cycle, but we are already undergoing this process and then we'll become a fully modernized, 100% online bank, running on the cloud, with some on premise infrastructure. And everything that makes no sense to load to the cloud will go through a very strong and efficient digital transformation, which is the last and very important stage, especially for individuals. This is the next stage to be completed.

To be able to serve our clients in the different segments with the adequate value proposition, but with the right cost of serving. This way we will be able not only to serve our current client. The Super App is already a great app, and not a pilot anymore, because 8 million clients... We know that this is not little. The clients who migrated, excluding the other clients of the bank, will be the new growth drivers with a very low efficiency ratio.

So, I think that part of the bank's evolution will happen over the coming years. We continue to be optimistic, excited with everything that we've been achieving. Naturally, nearly everything is correlated with the activity, and that goes for everything, as portfolios grow, nominal GDP grows and, we have plenty of opportunities to be captured over time.

[Renato Lulia]

Great, Milton. Thank you.

And now, for the next question, let's move to English, as we always do, as we have Tito Labarta from Goldman Sachs with us. Tito, it's great to see you and thanks for joining our call today.

[Tito Labarta]

Thank you Renato, Milton and Gabriel. It's nice to see you again. Thanks for the call and for answering my question. My question is about the financial margin with clients. I think that you had an exceptional performance, particularly in a seasonally difficult quarter, given its significant client base. Taking into account only the year-on-year rates a bit higher than the guidance, and in a related topic, Milton, you detailed the potential growth prospect a while ago. So, could there be a potential for growth? Help us understand whether the financial margin with clients will continue to grow.

Also, we saw the last interest rate increase earlier this week. So, perhaps the markets are starting to price potentially lower rates for the end of the year.

So, I want to understand your current scenario in the context of financial margin with clients. And what do you expect for the rest of the year? Thank you.

[Milton Maluhy]

Thank you, Tito. It's very good to see you again and have you with us. Let me start saying that we continue to be very optimistic about the financial margin with clients. It's obvious that, when we do our budget, we take into consideration the interest rate levels, and plan and make up a provision for the increases that we've seen so far.

Let's see what happens in the next earnings conference call. However, ultimately, everything is taken into account in the projection that we publish in the end of the year.

So, we continue to be positive and I still believe that the guidance is the best information available today. But, if I had to choose a threshold, I'd say that we are much closer to the top of the projection, in the context of financial margin with clients, than to the midpoint of the projection.

Then, in my opinion, this range still absorbs our best expectations, but we're confident that we can deliver results close to the top of the guidance range. This is our best estimative to date.

There are also many opportunities, as you can see. The average balance of our portfolio was very positive in this quarter. We had seasonal effects driven by fewer calendar days and business days.

But, in general, all the operations are performing very, very well. Of course, the interest rate also has an impact, as it impacts the spread of investments and deposits in the bank, and the working capital of the bank. This working capital has been increasing quarter-on-quarter. So, in general, we're optimistic that we can reach the top of the guidance by the year-end.

[Renato Lulia]

Thank you, Milton.

Going back to Portuguese, we have Marcelo Mizrahi, who has just started a new journey. Good luck, Mizrahi, in BBI. And thanks for joining the call with us today.

[Marcelo Mizrahi]

Thank you very much! It's an honor to be here after so many years, 20 years I think, as an investor, analyzing the bank and now on the other side of the table. A lot of questions were answered, but when we think about One Itaú, the ocean of opportunities that One Itaú can bring, we think on segments in which Itaú could increase its market share. In credit card you already have a big market share and probably have a growth opportunity. But perhaps the question or conclusion here is to think on the investment platform.

How do you think the investment platform will perform considering the type of client that One Itaú will bring, and if it opened up an opportunity for growing in the retail segment. What would be possible to be developed so that Itaú One could bring clients to the platform to strengthen what already exists, and based on that discussion about the lessons learned during the development of Íon? I want to look ahead a little bit and ask what you think about this business segment, since the bank is no longer a stockholder of XP. There is a whole question that can be identified now and it's a little different, isn't it?

[Milton Maluhy]

Great, Marcelo. Welcome, good luck and congratulations on the new challenge. Thank you for the questions. First of all, it's important to say that One Itaú was created from a card base, which is the origin of this audience and of iti. I think these are the two large audiences that are being migrated. We don't think that it's necessarily the credit card segment that will always provide opportunities, because it's the same client who is operating with us and sometimes they come through a specific product, and we have the ability to expand the offer of card products for this client too. This is number one.

Number two, when you segment this base of 15 million clients, you can see that there are clients from all segments. You have the low-income client from Itaú Branches, the middle-income client from Uniclass and the affluent client from Personnalité. Obviously, you also have some clients from Private, but I'd say that the bulk is concentrated in the segments of the individual business unit.

So, the opportunity that we see is not related only to the evolution of the credit relationship with this client, but also to the evolution of products and solutions. So, you are able to evolve payment accounts, transactionality. You start to bring the flow to the bank. All the new features that we launched, whether the digital piggy banks (*cofrinhos*) for clients to save their funds, whether the prepayment of installments, the Pix Credit that you leverage in the investment platform and the attention model for Uniclass and Personnalité are also something that we'll be able to offer to these clients, all loyalty programs, *Minhas Vantagens* (My Advantages), etc. Then you see a great opportunity to cross-sell again, solving client's pain, expanding the relationship with these clients. And investment is, for sure, one of them.

I'll do a quick link here to Íon. We're very happy and satisfied with Íon's evolution over the years. Its results achieved an extraordinary level here in the bank.

So, the Net Capital for individuals in this quarter was very strong and Íon made a giant contribution, always working together with managers, who are also a specialized sales force, especially for Personnalité, Uniclass, where they also talk with clients about investment and other products, about banking, credit, mortgage loans and other products. This composition and the logic of the expert have really shown very good results. So, we're very excited with all this evolution.

We are very satisfied when we compare with the market and see our value creation ability, and we measure the flow. It's very positive. Íon has a determined scale.

We’ll go with Íon up to a certain level because this model, that involves human attention, dedicated experts, works for a specific client audience, but, for a more scalable audience, which is a good part of the clients who are being migrated, including from One Itaú, we need a much more intelligent and scalable solution for client service.

I attended the Web Summit last week and, at the first hand, I told that we're going to launch our Wealth Specialist, or investment specialist, powered by Artificial Intelligence, which is already in the pilot stage.

So, something with which we have been working for a long time, as we have started the year with pilots and tests. We started to scale tests now and this is a scalable solution. And here comes the question that is always raised: well, but with LLM models, all the Artificial Intelligence available for everyone, what’s your edge?

I think we have a powerful combination here in the bank, which is the combination of all the know-how we acquired as a bank that was always a very strong investment platform in Brazil, or the main investment platform in Brazil. When you look at the balances and our know-how in investment management, and all the learning we obtained from the open platform, combined with Artificial Intelligence, you can train our agents in Artificial Intelligence with data that you’ll often not have in the market.

A person may master technology but lacks the behavior, the expertise to allocate knowledge and serve clients over time. So, I think this is a very powerful combination that can help us build and scale relationships with our clients in the investment world.

We’re in the early stage again, with a lot to learn. The pilots are important because, when you talk about investment, you need a watchful framework, the guardrails, to be very careful. But the results have been encouraging and we expect to scale this solution over time,and it will be connected in the Super App. It’s not a chatbox where you post a question and someone is there. In fact, it’s an Artificial Intelligence experience that provides curator and consulting services and helps you manage your investments with all training and know-how that we acquired over the years. So, also related to your question about investments, it will help us scale the One Itaú platform and all the relationships with our bank clients who need more specialized advisory services.

[Renato Lulia]

Awesome! Thank you, Mizrahi. Thank you, Milton. Next question is here with us, Mario Pierry, from Bank of America.

Hello there, Mario. Good morning.

[Mario Pierry]

Good morning everyone. Thanks for the opportunity. Congratulations once again on the very predictable earnings. We see improvements every quarter and I think the market appreciates this accountability. Milton, I want to ask more about expenses. You clearly showed that the bank has done a great job, with the efficiency ratio at its lowest level.

But we see here that you closed 10% of your branches in the last year, whereas the number of employees, excluding technology, decreased only 2%. So, today, we see the number of employees per branch close to 32.

One year ago they were 29. I want to understand how you see the evolution of this metric and if there is more room for branches. Because in every call we listen a lot about investment in technology, One App...

I want to understand how you see the role of the branches from now on. I think that if we do a survey here, we'll find that people still see the value of visiting a branch. So, what do you think is the ideal number of branches, of employees per branch? Thank you.

[Milton Maluhy]

Thank you, Mario. Thank you for your initial remarks. It's also always good to see you in our calls.

I think this is a very good question, Mario. And I'll give you some information that may help your reasoning. First, we don't set a goal of closing a specific number of branches. It's sure that we do make forecasts, our analyses and it's a very complex algorithm, not a simple one: we want or we don't want to close.

We take into account many variables, geographic location, clients, share of the branch in the region, earnings of the branch, ability to operationally scale the branch, distance between the closer branches, whether we are able to serve that client in terms of circulation in a more central branch and to have branches more focused on business, satellite branches close. So, this is an analysis carried out by our teams every day. I think you raised an important issue.

First, we have migrated a good part of these branches to digital branches It's a completely different service model, with a much lower service cost, which allows to scale and to significantly adjust the account loads. The second aspect is that, when we close a branch, we always consider how far it is from the closer branch and if this will generate attrition with the client base that still goes to the branch.

Depending on the distance, there's a small reduction in the headcount when we close a branch, in fact because, since portfolios are already made up and the account loads are finite, we are able to transfer a good part of the relationship managers, the commercial teams that serve these clients. We start reducing the workload of these teams, increasing the account loads, maintaining the quality, measured by NPS, and making adjustments to the required extent. In fact, in this quarter, we reduced the number of branches by 100.

We understand that the phygital model has a very significant role, especially for middle and high-income clients. In the low-income segment, the service cost is really higher, the efficiency ratio is higher. And all the work we've been doing here to digitalize our journey, digitalize the Super App enables us to provide an increasingly competitive value proposal.

This happens because, again, our purpose is to serve clients in the way they want. We don't close the branch using brute force only because we want to adjust costs. We reduce the structure because, when we do it, we are also pulling out a relevant topline and leaving clients unassisted. But we have to serve clients at the right price so that these attention models are sustainable in the long term.

And this is the work we've been doing over time. Digitalization will enable us to adjust the business models to become competitive, to have an adequate efficiency ratio to serve the different audiences and to be able to actually absorb loan losses in the most vulnerable audiences, not in the very-low income audiences, as they are not our target goal, but low-income clients who are resilient in longer credit cycles.

A whole reshuffle is in order. What is important is that you see the direction and the base work that is being done, etc. I think that, from now on, you'll start to see major evolutions in these indicators that will help clarify what our strategy is.

It's a step at a time. We're conscious of the challenges, but we want to do things right. We want to take care of the clients, take care of the people here in the bank, and all the transition has to be done as best as possible. So, we're under the process and it's a process that will become increasingly intensive over the next years.

[Renato Lulia]

Thank you, Milton! Thank you, Mário. For the next question we already have Renato Meloni here, from Autonomous. Thank you, Renato! Welcome to the earnings call.

[Renato Meloni]

Good morning, everyone. Thank you for the question and congratulations on the consistent results. First, I want to go back to your answer about the financial margin with clients.

If we put it this way, you are running well above the guidance now. I think that the growth slowdown issue is clear, but, if we include this margin in the guidance, you continue to run above what you stated. So, I'd like to understand in this implicit compression where you are identifying here the highest risks and, in the segments that are slowing down, how this will influence the mix or if the increase in the cost of funding will be enough. Second, could you comment a little on how you see the evolution of the credit cycle this year? Where are the highest risks and what is the bank's positioning in this regard? Thank you.

[Milton Maluhy]

Thanks, Renato. Thank you, Orange Clock. I also read your report. I want to say that, when we look at the margin, the portfolio comes first. I think this is the key point. We've seen the portfolios performing in line with what we imagined.

So, when it comes to the average balance, some volatility ends up appearing in the portfolio due to the foreign exchange rate. But Gabriel is always monitoring the foreign exchange rate to see the end portfolio and average portfolio effect. We're constantly looking at this here.

So, what really matters is the average balance and this is what I showed you a while ago. The second aspect that I want to tell you is that the interest rate itself has a slower pass-through to our margin. And why is it slower? Because we hedge these positions.

So, in the downtrend of the cycle, when the interest rate starts to decrease sharply, it takes time for us to notice this drop because the portfolio is hedged. We see the same thing when the interest rate increases. So, this pass-through is coming a bit slower than when the interest rate increased, but it's coming anyway.

We can already note the CDI effect on the working capital. In general terms, I can see a relatively stable annualized margin with minor fluctuations over time. The risk-adjusted margin has had a significant role because at the end of the day it was disclosed and you saw that our risk-adjusted margin is the best of the series since the fourth quarter of 2019.

So, when we see the risk-adjusted margin projections in the consolidated, the margin may increase over the next quarters, but I'd say that this is a relatively small effect, but at a fairly sound level. This is the key point. We continue to understand that the portfolio will perform in line with what we imagined. We don't see any spread risk for these portfolios and I think that the interest rate hike reprices them in some way.

The capital market was a little less competitive, although somewhat active in the quarter, but less than in the previous year, which ended up leaving some operations to be assessed. And the demand that, with these interest rates, naturally tends to weaken. So, companies tend to postpone long-term decisions, individuals tend to postpone financing or consumption decisions.

We feel a slowdown and that's why there is naturally the monetary policy. But we're constructive on the financial margin with the client and positive that we'll have a very solid year in terms of delivery of value. The supplement to the first question was only about the margin or about the risk? Ah, and you also asked about the credit cycle.

How I see the credit cycle, isn't it? The credit cycle is as follows: we see very good and favorable indicators. We really wanted to break down short-term delinquency by segment because, as we are in an expected loss world and we've been working with the expected loss model for a long time, it's very important to look at the dynamic of the short-term delinquency.

First, because it gives you a clue about what lies ahead. Second, it's the short-term delinquency that calls for provisions. So, in the very sensitive expected loss model, when we show the increase of 26 basis points in NPL for individuals, we basically want to show here, with two decimal places, that we always monitor this factor in relation to the historical average.

The historical average ranges from 30 to 40 basis points, more to the side of 40, as this logic didn't work post-pandemic. Last year it was also very low. But the portfolio was going through a very strong de-risking process. I'd say that this quarter is more typical, with a good quality portfolio, and that's why we are running on these levels.

For me, this is a great indicator. That's why when we see our provisions for formation, which are a little higher than 100%, it has to do with a double effect. A very good formation because the portfolio has been performing very well and all the work around credit that we've done over the years. But there was an expected loss, a little more volatile, and, as the short-term delinquency, especially for individuals, was registered in this quarter, it requires more provisions.

That's why we recognized a provision of 120% of the formation in this quarter. We imagine there will be some natural reduction. That's why we think this look at the short-term delinquency is important. Grouping the segments together may lead to misleading indicators, and that's why we tried to break them down, in individuals, small and middle-sized companies, given the denominator effects, the effects of large companies, and of any change that you do, including in the write-off methodology.

As we didn't change the criteria, the indicators are completely comparable, and this is valid for all products. So, it's a benign cycle. Now we look with caution, because we already see indicators from the use of the revolving credit for companies, with consumption of some liquidity.

Everything that we imagined that would happen, especially after a more challenging quarter. When we project our credit indicators, we see a certain stability, very comfortable at the levels that we've been operating, except for small and middle-sized companies, as I said a while ago, we imagine a normalization, because in the last two quarters they were lower than we consider reasonable. So, I don't see or foresee any of that happening. Now, the market is nervous, we overhear more talks about court-supervised reorganizations, more clients are coming to talk with us. But, as I said before, and I repeat, I think that our portfolio has never been so resilient to face a more challenging scenario.

We don't see any credit crunch coming, the liquidity of the capital market remains strong. We're going to monitor the evolution, but our portfolio is really very healthy, delinquencies are behaving well. We're very excited about the prospects here.

[Renato Lulia]

Awesome! Thank you, Milton. Next question is here with us, Matheus Guimarães, from XP. Welcome, Matheus, to our earnings call.

[Matheus Guimarães]

Good morning, Renato, Milton, Gabriel. Thank you for the opportunity to make a question and congratulations on the earnings. I want to ask about the cost of funding. I think your financial margin continues to be very strong and we see some competitors with strategies for cost of funding. I want to understand if you think there is still room for improving this indicator or if any changes made by the competitors will open an opportunity for you to be a bit more aggressive in this regard.

This is the first question. And if you allow me, I just want a follow-up of a previous question about private payroll loans when Milton talked about subordination. I think that the subordination issue is very clear, whether in unsecured personal loans or possibly in private payroll loans that already existed.

But my doubt is about subordination for cards since with the launch of the private payroll loans in the social security card app from day to night the client is now able to raise a loan from a bank with which they didn't have any relationship until a short time before. This may somehow affect the appetite in the card segment. Thank you. I think these are my two questions.

[Milton Maluhy]

Very good, Matheus. Thank you. It's also good to see you. Thanks for the question.

Let's start with the cost of funding. I think it depends on how you look at the cost of funding. And here I'll make a strong statement. Basically, we obviously have a very optimized cost of funding in the bank, because of all the business lines in which we operate, funding products, products with incentives, treasury products, etc. So, it also concerns our cost of funding, all this circulation of clients in the bank, the relationship, the cash management, our principality with our individual clients as well.

Our cost of funding today is very optimized and, if you look at the ratio of individual deposits to individuals portfolio, we have the best ratio in the market, which shows that we are a very solid investment franchise, which shows that we are a very solid investment franchise and very solid alternative to our clients. But most important is to understand that there is a client on the other side. So, we make here the franchise statement.

We want and we will continue to be a very strong investment franchise to our clients. Our goal is not to optimize the cost of funding, it's the cost to have the client on the other side, who no longer engages with the bank, and to lose principality and lifetime value. The launching of the digital piggy bank, just to give an example, where the client has the alternative to withdraw money that is idle in an account e save it, build up a reserve, and we return 100% of the CDI, shows that our vision is focused on the client and not on optimizing the cost of funding.

This is one part of the history. So, I see it as an opportunity because it significantly reduces it. It's obvious that there may be volatility in the cost of funding.

Our LCR is close to 200, it has already been higher. We made a payment of extraordinary dividends, but even though it's running well above the regulatory LCR. We're not guided by this because, if we were, we would have to significantly reduce the cost of funding, the deposit in the end. We would lose deposits by design, but we would lose clients also.

Deep inside, what we want is to serve our clients as best as possible with a very robust investment franchise. So, answering the question, I think it's an opportunity.

It's an opportunity to better serve our clients, to show that, regardless of the cycle, Itaú Unibanco is a good place to invest, a good place for these clients to help themselves to our platform, with alternative investment opportunities. We're not going to make changes in our funding structure by force. I'm not saying that we'll not change or will never change the funding rates because this depends on a transfer price dynamics, assets and liabilities, on how our cash management is. This is part of the business dynamics.

But most important is to strengthen the investment franchise and the relationship with our clients. I think this is our main strategy.

About private payroll loans and card subordination, I think, and I've already mentioned it, that the credit card, in the way it was designed, has never been a good consumer finance platform. It's good in terms of transactionality, as it helps with the client experience, in the day-to-day, whether by the loyalty program or the simplicity of the transaction, but it's not when the client really needs to finance their consumption. Today, 86% of our R$140 billion portfolio is interest free. This is the phenomenon of the interest-free installment payments.

So, we know that, at the end of the day, and we've been trying to work in the different products, bill installments, the PIX in the credit card and other products, what is left of the financed portfolio is the smallest part. Although this portfolio has significantly grown, the financed portfolio increased by 8% in the quarter, and it helped with the margin. I feel that, when you provide this client with a private payroll loan, then they will probably have the best finance product, obviously limited to 35% of the salary, but it will be probably the best alternative.

So, it's up to us to offer the best and cheapest alternative to the client, because this is the way we work, and supplement their needs with other products. But we have to go from the more competitive to the less competitive,

as credit card delinquency rates, especially for revolving credit, are very high. This will be the natural way, whether through Credit PIX, private payroll loans, financing through credit card, at generally adopted rates, as they tend to converge towards a healthier dynamic.

Now, let's remember that the base of people subject to CLT is large, but it's not so significant when you look at the total audience. So, the opportunity to offer this product is not exclusively in this audience, you can also serve many other audiences. I think it's constructive, the market will certainly adjust itself, nobody knows how it will work, but it's a step at a time.

And I think it's going towards the right direction, with more appropriate rates, more appropriate risks, less delinquency, and we manage to defend the net margin. And we're driving clients to the right product, an adequate consumer product, which is clearly not the credit card.**[Renato Lulia]**

Thank you, Matheus. Thank you, Milton. And next question is also here with us, Guilherme Grespan, from JP Morgan. Thank you, Guilherme.

Good morning and welcome.

[Guilherme Grespan]

Good morning, Lulia. Good morning, Milton, Gabriel. Thanks for the presentation and I'm one more here assuring the quality of your earnings. Congratulations. I think the big debate cases were already explored. I want to take the opportunity to clarify two doubts that are more specific about the earnings in this quarter.

First, with respect to working capital, Milton, about which you talked a bit more in your presentation, we noticed a very strong performance of this line in this quarter. As you said, it's a line that generally has a slight longer duration, not the spot Selic rate, and there are investment vertices. But, when you look at the yield jump in this line, it was very representative.

It was increasing in a more gradual manner, and the implicit yield went from 8.87 to 11.2. And, as this line is called working capital and others, I just want to understand if it's really the working capital or it's another line that is influencing and, more important, if this yield level that we've seen in this quarter is sustainable from now on.

And the second question is only to harp on the string of taxes, which were a little higher in this quarter. Should we still expect taxes to converge to the guidance? Can you also explain why taxes increased in the quarter? Thank you.

[Milton Maluhy]

Awesome! Thank you, Guilherme. Nice to have you here. Thanks for your words.

Well, there is the bank's working capital, basically, and others, and, as you have well put it, what others are? Just to provide you with some more insight. So, for example, investments that we have in companies that we don't necessarily consolidate we record them as equity in the earnings of investees.

As it's an investment, it ends up being recorded in working capital. If we have to activate, for example, an acquisition of payroll, the activation is within the working capital. There are some effects that stay there and may occur on a seasonal basis. So, one part of the effect is the result of the predetermined rate on capital in the quarter, and one part is the effects related to the previous quarter.

They are deltas of effects that occurred, of variation of equity in the earnings or of assessment of intangible items in the payroll, for example, that we had in the last quarter and were higher, or we didn't have negative effects in this quarter. So, it's a bit of a combination of both that brings this effect to the working capital. I think, Gabriel, that our expectation is more normalized now.

Obviously, this volatility may be driven by the effects that I mentioned, but the adjustments that are made between the quarters show a certain discontinuity. But I think that, structurally, this working capital level and this level of pace seem appropriate.

[Gabriel Moura]

That's it. I think that the yield that you mentioned is a yield that makes sense, with all disclaimers mentioned by Milton about the volatility that we have in the quarter, whether due to a base effect, that is, things that happened in the previous quarter, whether due to the yield of the portfolio in which we are investing, looking ahead.

[Milton Maluhy]

And the explanation about the tax rate is very simple. In fact, two effects can explain this tax rate increase. The first one is that, as the bank is a conglomerate with many vehicles, it has both financial and non-financial vehicles.

And we have three types of rates in the conglomerate today. Some companies pay a corporate rate of 34%, come companies pay 40% and some companies pay 45%. Depending on the source of the earnings, you change the mix.

In this quarter, more earnings came from companies that pay higher rates. Therefore, this naturally leads to a slight increase in the effective rate. And the second aspect is that the higher the EBT we generate, the lower the tax interest on capital benefit in the effective rate

So, the higher the bank's profitability, the lower the interest on capital benefit in percentage points, because, as it's limited to the equity and to the long-term interest rate (TJLP), you have a defined benefit to a profit that can be higher. Then, at the end of the day, interest on capital benefit is diluted the higher the result.

I'd say, for a good reason, that the result was higher and ended up diluting the interest on capital effect. And the second effect was our business mix, where business with the higher rates recorded higher results, driving the average rate upwards. Gabriel, our expectation for the year is to try to stay on or perhaps to converge to the guidance and perhaps a bit closer to the ceiling than to the bottom of the guidance. Do you see it differently?

[Gabriel Moura]

No, I think it's precisely this.

When we look at the bank, we see the effect that Milton mentioned. We have over 129 companies in the conglomerate and they have different profitability rates, different profits, and different sizes. And the tax rate fluctuates depending on the seasonality. We believe that this must converge to the guidance that we disclosed earlier in the year.

The guidance is our best news today. If any different vision comes up in the next quarters, we'll make the proper adjustments. Well, I think it's a good cholesterol in the end the day. We have more results diluting the effect of interest on capital.

[Renato Lulia]

Perfect! Thank you. Thank you, Grespan. And also here with us, Gustavo Schroden from Citi. Gustavo, good morning. Thank you for joining our call.

[Gustavo Schroden]

Good morning. Good morning, Milton, Gabriel, Renato.

Thanks for the opportunity. I'll also congratulate you on the earnings. You work as a high-quality Swiss watch, without a doubt. My question concerns the mass segment, Milton.

We see your ROE by segment and it's 20 to 25 for the retail business and 25 to 30 for the wholesale business, this order of magnitude. But I remember that in past conversations you told us that the mass segment still posed a profitability challenge. The bank has been making investments, the One Itaú is coming, and we see the efficiency ratio improving. There's the issue of the revenue, of course, but you have the cost efforts.

I want you to position us and tell us how you see the profitability of the mass segment. Do you think it's improving to the point of reaching a stage in which it's possible to have a larger market share in the mass segment? Have you already reached the level of profitability or are there still any steps so that we can understand in which stage the bank is in the mass segment? Does the bank believe that it can reach a profitability stage in which it's possible to have a larger market share in this segment? Thank you.

[Milton Maluhy]

Thank you, Gustavo. It's good to see you in a new house. Good luck with your challenges. Thanks for your initial remarks.

Yes, I remember that this was in the third quarter of 2022. I told you that we had reached a profitability of 16.4% in the retail business and that we were not happy and not satisfied at all. It was actually a hard credit cycle process, but we had a relevant work to do in this portfolio.

And today I'm happy to see, some quarters later, that we're running with a profitability of 25% in the retail business, but for the individual business unit and the corporate business unit. So, I think that we must first change this vision a little bit.

The two business are running above the cost of capital. So, not to have the feeling that an offsetting will come, the profitability for the companies segment is still higher than that for individuals, but even so, especially with monoliners, which had a harder credit cycle, in credit cards and vehicles, we managed to develop a relevant strategy to review our way of acting, our risk appetite, and this process was very healthy to the portfolio. Then we went through a de-risking process combined with better management, higher penetration and higher target client engagement, which drove profitability to this level.

When we look back, those profitability rates many years ago were achieved under other circumstances, in terms of several issues. First, there were no regulatory caps in that time. There were no INSS ceiling, no card cap, the Brazilian wall (interest rate cap), there was no overdraft cap.

The regulatory changes naturally generated impact. And today this is a market with a larger penetration of credit than at that time. You tend to have a more significant capital cost and a profitability on credit that drives the overall profitability to a slightly lower level.

Answering specifically about the mass segment, I think that its profitability is much lower than we would like. We say much lower to show that it provides us with a great opportunity. So, basically, I see the middle and high-income segments, basically Uniclass and Personnalité, running with very solid profitability and critical mass.

It's not enough to be profitable, you need volume, revenue generation, and client base. And I think that the segments have performed very well and have grown. When I see the low-income segment, there is a giant opportunity to adjust the service model so that we are able to reach a profitability level that is more appropriate to our appetite. Obviously, the base of the whole network serves to a number of elements, acquisition of clients who are then migrated to other segments, collection at specific points of the credit cycle, attention to clients, penetration and engagement increase, etc.

But there is a model through which this tends to be optimized and should be optimized over time. So, answering your question, I don't think we are doing a great job when it comes to attention to the mass segment. We have homework to do. The entire bank's digital evolution will serve for this, all the evolution of the Super App will serve for migration, too.

My expectation here is not for the short term. Next quarter I'll ask why we did not see an evolution. I don't think this evolution will happens in one quarter, but it has to significantly take place in the next three to five years. The expectation is that we have an enormous opportunity and we're very well prepared to complete this pathway in the right way, taking care of our clients, improving their experience and serving clients in their segments with the right attention model, right cost, so that we are even able to absorb and accept more losses in the portfolio.

It's not about changing the appetite, it's actually a lot of work on experience improvement and platform evolution.

[Renato Lulia]

Thank you, Milton.

For the next question, from Morgan Stanley, we have Jorge Cury with us. Great to see you again. Thank you for joining us today.

[Jorge Cury]

Thank you all, Milton, Renato and Gabriel, and congrats on the earnings. Let me go back to the rates. My question covers a term longer than the term used in your projections for this year. Rates are obviously increasing from the last ten years. So, in this context, in your opinion, what would be the unexpected gain or loss in this scenario?

I mean, you benefitted from these rates, as seen in your historical ROEs today and, if we go back to when rates were below 10%, the bank's ROE was around 18%, 19%, whereas the ROE today is around 22%, 23%... and there are so many variables!

I'm not suggesting that it's possible to carry out a regression analysis for rates and ROEs, but I think this is my question, that is, how do we quantify how much of the very high profitability you have today is due to these excessively high rates?

And, subsequently, as rates return to regular levels in Brazil, let's wait, below or around 10%, in the next two to three years, how would this affect your ROE?

Also, what could you still do, in the next two to three years, to guarantee that the level of ROE we see today will not be diluted over time? Or maybe it will be diluted and it's all right. So, these are many questions.

[Milton Maluhy]

Ok, thank you, Jorge, and thanks for your question. It's been a long time since the last time you joined our call. Thanks for joining us today. We have a slide that was basically made for you, Jorge. Sometimes, we show this slide in our earnings call to show the extent of the relation between the bank's margin and the profitability due to the interest rates in Brazil.

I think this is not a simple question. As you said, there are many variables when we look at this impact. I can say that, in the short term, the benefits are in the working capital and in the deposits.

These are the two most significant impacts we have, but, in the end, we hedge these effects. Therefore, the increase or decrease in the interest rate doesn't affect us as fast as it could be expected. Once again, we are sensitive due to the hedging level that we implemented to maintain more stability of our figures.

Second, I believe that when an interest rate starts to fall, we'll see more activity, and more activity translates into higher portfolio and more growth. The latter translates into more business with our clients, more relationships, higher penetration of products, services, derivatives, foreign exchange and effects of cash management, that is, all products we provide to serve our clients. Of course, we have some offsets in the portfolio in different lines, for different reasons. The financial margin is impacted by the market and by the client.

With a higher portfolio we have less non-performing loans, especially in the individuals segment. It's difficult to give you a number. Therefore, the important thing is to consider the long term when we consider all the volatility of the interest rate and we still have a NIM that is much more stable than expected. This is due to the broad and well-balanced portfolio of the bank.

It's well balanced in all business lines, which provides us with a sensitive portfolio and a natural protection to the bank's portfolio.

These are the short-term impacts and they're positive, you're right. However, we also have costs under control and we'll continue working on it.

If, for some reason, we believe that future revenue will come, we'll have to control the costs.

The list is infinite. That's why we measure the efficiency ratio all the time. We analyze revenue, but also take costs into account. I'm giving you a one-size-fits-all answer. I don't have a specific key question to raise because of the range of the portfolio. However, this dynamics is very positive and the bank's balance sheet is less sensitive to the interest rates than people usually expect.

I'd rather work in an environment where interest rates are lower than the interest rates we have today. Why? Because you can even experience an increase that may be beneficial to the bank in the short time, but if they persist for a very long time, delinquency rates will significantly increase and, then, you'll lose the ability to expand the portfolio and, consequently, DCM (debt capital market), the investment banking.

Everything is impacted. In our opinion, we'd rather work with much lower structural interest rates, of only one digit, if possible. This is much better for us in the long term than the two-digit interest rate we see today. Do you have any comment, Gabriel? Any additional comment?

[Gabriel Moura]

No. As Milton already said, there is a portfolio effect in the bank. With the different interest rate cycles, when you look at the short term you'll have higher revenue on capital liabilities. But the other side of this is the growth of assets. We see this in the other countries where we operate.

The experience in Chile, for example, with much lower interest rates, you see a much higher credit penetration in GDP than in Brazil. Of course that, working with lower rates, some of our business lines will be a little smaller than today. However, on the other side, if you look at the rates, transactions and investments in assets, the growth will be very different. I think that the portfolio effect is positive to us.

There's also the capital ratio hedging cost, Jorge.

[Milton Maluhy]

Sorry, Renato. This also has an impact and this is why we believe that the financial margin with the market for the next quarter may be more impacted because the higher the interest rate, the higher the difference between the interest rates in Brazil and those in the other countries where we operate

and, therefore, the higher the capital ratio hedging cost. This is one of the reasons why we expect to have a guidance that is more in line with our expectations. This is better than having the next four consecutive quarters following the same trend of this quarter. This is due to the cost of hedge: we paid R$500 million in this quarter and we expect that this amount will grow in the next quarters, and we'll also see some effect on the banking portfolio, regardless of the implementation of a very dynamic hedging in the portfolio.

We can see some impacts along the way if the expected results of the banking portfolio are lower in the next quarters. This is the other side of the coin of working with a high interest rate in Brazil.

Do you want to say something?

[Renato Lulia]

My only comment, and this one is specific to Brazil, is that we also have products with ceiling. Payroll loans, secured account, overdraft. Whenever financing costs increase, the cost of legal charges increases as well.

The spread is compressed, so, whenever the SELIC rate falls, you may also see an effect on spread.

[Milton Maluhy]

Perfect, I agree 100%. In retail operations, as I said, you have caps on our credit cards, caps on payroll loans, caps on overdraft. This also puts pressure on profitability in the retail business whenever rates are high.

As mentioned before, there are many effects and we have to take all of this into account. That's why I always say that, and we tried to demonstrate it to Jorge, we are less sensitive to the interest rate than it appears. Thank you.

[Renato Lulia]

We warmed up in English, let's continue because we have now Carlos Gomez from HSBC with us. Carlos, nice to see you. Thanks for joining our call.

[Carlos Gomez]

Thank you for taking my question and congrats on the results. Thank you for the references about taxes as being good cholesterol. We'll use it, very good.

Here's my question: first, you showed the new classification by status and the new provisioning per entry. I think this gives you a new view on profitability of each type of loan. So, do you think that we'll see a change in the market from now on, when competition also starts to see things this way? Do you expect some products to grow and other ones to decrease in the future?

And, totally unrelated to this, we didn't hear about any possible changes in taxes, in interest on capital or in your subsidiaries abroad. Do you think something like this is reserved for the next months? Thank you.

[Milton Maluhy]

Thank you, Carlos, and thanks for the kind words. It's good cholesterol whenever we have the same corporate income tax, right? When income tax increases due to a legal or regulatory decision, it's not necessarily good cholesterol because, in the end, we know that, if interest rates increase, cost of credit in Brazil increases.

Obviously, the payers are those who rely on loans and have to finance their financial needs. These payers have to pay more every time this happens. Therefore, it's very important to remember that this is the way we analyze whenever corporate income tax rates increase.

In my opinion, these publications, in the way they are exhibited now, reflect the way we manage the bank today. We don't expect any change because now we have the local IFRS or the local BR GAAP. We don't expect to change the way we operate in the bank because of this. This will result in more transparency, more comparability and will better reflect what we do in the organization.

I don't expect any change in the way we operate the products and business, especially because, as I said in the beginning, we didn't change any method, any criteria related to the BR GAAP, when associated with write-offs.

Since we continue to operate exactly in the same way, the way we manage the organization should not change. Answering your second question, about interest on capital: we have no questions being raised from abroad. I know a discussion is being held in the Brazilian Congress. There is a Government's proposal to increase the corporate tax rate, the withholding income tax, for dividends, which must be analyzed by the Congress.

They also exclude some tax-exempt products above a specific income range. So, this is what we can see in terms of change, but this is still a very open discussion. Let's see how the Congress will react to this. There is no discussion about tax increase, no discussion about interest on capital and that's what we have for the time being.

It's obvious that things can change and, if they do, we'll give further information about the matter. But this still needs to be analyzed by the Congress and we'll see how they will handle with this possible tax exemption for people who earn up to R$5,000.00 a month. Let's see what happens and keep a close eye on this issue. Thank you.

[Renato Lulia]

Our next question is from Henrique Navarro, from Santander. Hello there, Henrique. Thank you. It's good to have you here joining our call.

[Henrique Navarro]

How are you, sir? Hello, Milton, everyone. Congratulations on the earnings, but I think that the share performance today is a much more solid congratulation to you.

My question is as follows: talking to some market participants, there is no concern but there is some care about delinquency in the second half of the year. The vision of some participants is that, if the SELIC rate increases, there will be a three to four-month lagging, which ends up increasing delinquency. So, we always take care when we talk about the second half of the year.

As you are in different segments and have a very good experience, I want to hear what you think about this. Is there anything that we should actually monitor for the second half of the year in terms of delinquency? How do you see this evolution? I thank you for anything that you could share with us. Thank you very much!

[Milton Maluhy]

Henrique, thank you. Thank you for the initial remarks. You know that I don't look at the price of the share during the call. So, you've just updated me now and I'll look at it only after the end of the call.

As we're looking at the long term here, we're less sensitive to the spot price, but it's always a feedback anyway. So, thanks for the words. With respect to delinquency, I want to break the discussion up a little. First, we see some stabilization in delinquency ratios in our portfolio, so it's not a big concern.

I talked about small and middle-sized companies, in which we should see a normalization over the second half of the year. So, I think this is our best expectation today. I don't see anything very different. But I see some market indicators, for example, credit card, vehicles, the national financial system,

and we've seen much more pronounced movements in the market portfolio than in our portfolios. For example, for credit cards our delinquency rates have significantly decreased in the last seven, eight quarters. We've seen a jump in NPL over 90 days in the card market that we did not note in our portfolio, to 25% or almost 30%, depending on the vision, with or without Banco Carrefour and such, which we have of the portfolio.

Basically, excluding Itaú, we've seen a much worse performance in some products than the one we've seen in our own portfolio. This goes for vehicles, too. It's important to have a constructive vision, in spite of the more challenging scenario.

So, it's not reasonable to imagine that interest rates are going to stop at 14.75% and that they'll stay at this level for a longer period and delinquency will not be impacted. The bank's portfolio is much more resilient, and this is why we don't see big changes in delinquency rates ahead. Everything is more stable, let's follow up and monitor things carefully.

So, there is much day-to-day work, dynamic portfolio management, collection management, but it's a very well-defended portfolio for a more challenging scenario. When I see the market indicators, I think they are sovereign, but in fact it's not what I think, it's what we see. It's important to look at these figures, delinquencies, short delinquencies, breakdown by segment, the National Financial System indictors for different products. Then we'll have a clearer proxy.

Yes, I think the scenario is more challenging for the second half of the year. It's not exactly the scenario that we observed in the first half of the year or that we've been observed in the last years. It's to be closely monitored and I think that the portfolios of the different banks and companies that operate in the system will perform in accordance with their appetite and with the risk profile of their portfolios.

We have a very solid base of affluent clients. We went through a significant de-risking process. In the companies business, we have a very, very solid portfolio, with a really outstanding credit performance. And in large companies, we have a well distributed, less concentrated portfolio, in industries with appropriate volatility, in summary, a very well-established portfolio management.

I'll reinforce that we're not anticipating, I'm not saying that it doesn't happen, but in the wholesale business we have events. So, we are subject to events all the time. On the other side, we work with expected loss in all segments. It is significant that we don't cross-subsidize, so we're always looking at the adequate provisioning level and doing what it has to be done. Therefore, our balance sheet today includes all the required provisions, that is, the portfolio is very well hedged.

But I think we may have a little more challenging scenario. Let's monitor, let's see how it comes, but so far so good with our prospects.

[Renato Lulia]

Thank you, Milton. And now going to the last question, but not less important, from Eduardo Nishio from Genial. Nishio, thank you. Welcome and good morning.

[Eduardo Nishio]

Good morning, good afternoon. Congrats on your data, Milton, Gabriel and Renato.

I have a question about your capital ratio hedging. You've been good capital managers throughout the cycle. I think that the hedging gave a comparative advantage in this interest rate cycle to Itaú.

And my question is: As the other banks may not be able to replicate it, do you think you have a competitive advantage in this segment, as hedging is concerned? Is there any difficulty in doing this, or no?

In your vision, what is the advantage or disadvantage of the capital ratio hedging versus NII (net interest income) hedging? Because there is a cost and we see this cost in the market NII. Could you give just a little more color on this issue? Thank you.

[Milton Maluhy]

Thank you. It's a pleasure to see you here again, Eduardo. Thanks for your words.

Well, here I think that there are some answers and some questions that are idiosyncratic to Itaú Unibanco. I think the first one is the relevance of our operations outside of Brazil. When we compare with other players, we are the bank, the other are Brazilian players with greater exposure and activities outside of Brazil.

Then you look at the portfolio for Chile and Colombia, in the consolidated information, Itaú Chile, and it's very significant to our assets. Then you have a portfolio in foreign currency, U.S. dollar, Chilean peso, Colombian peso, but we also have the other banks, in Uruguay, in Paraguay, not including our whole loan portfolio, which is sensitive to the dollar or to the Euro for different reasons, with Brazilian clients raising funds in other currencies. In the past, we used to be highly sensitive to the foreign exchange rate due to overhedging.

You must remember that it generated a positive result in the strategy, but, depending on the foreign exchange rate level, it generated a tax loss. And afterwards you had to manage the losses. It depended on your hedging strategy, but the fact is that it generated a dangerous tax effect depending on the foreign exchange rate level. When we no longer had overhedging, our sensitivity to foreign exchange rates significantly decreased as capital is concerned.

Because, when you handled the credit, depending on the profile, whether it was deferred income tax losses or deferred tax assets arising from temporary differences, it consumed the capital ratio in a different way. The large effect we have today is from the variation of portfolios. The hedging is dynamics and we're always looking at the cost of opportunity.

So, we obviously have a stable, approved and discussed policy that enables the regulator to see how we do this. But we're always trying to optimize this hedging. It's a dynamic hedging to a certain extent because they are generally long-term strategies.

And, deep down, we try to bring stability to the capital ratio. Why? Because this provides us with security to grow, security to pay dividends, security to advance. Since the capital ratio is so important to our volatile activity, we have to be more conservative, by definition.

So, a bit of our risk appetite in the past, which was above the level of our risk appetite today, was due to the significant buffer required to absorb these foreign exchange rate movements. As our capital ratio is less sensitive to the foreign exchange rate, we can work with lower and more leveraged buffers and, therefore, with a dividend policy that distributes more dividends because of the lower risk appetite. We're looking at this cost, which was already much lower in the past, as we saw, we used to talk about costs of R$300 million in the quarters. Then, this is somehow a cost of opportunity.

We have kept capital as free capital, aligned with the increase in the RWA of these portfolios out of Brazil, so it's quite a natural hedging. In consideration of this, you don't bring capital back and invest it at an interest rate of 14.75%. You end up investing in Copom options or in interest rates of countries where we consequently are operating.

So, this is the logic, Nishio. I think it can be replicated without a doubt. We were and continue to be more sensitive to the foreign exchange rate than the average of our competitors in aggregate, driven by our participation in operations outside of Brazil. With respect to cost, we're always looking at the cost-benefit ratio, at the level of volatility we're willing to accept based on the ratio vis-à-vis the cost of loading the hedging. Anyway, we're always talking about these dynamics.

[Renato Lulia]

Thank you, Milton.

Thank you, Nishio. This was the last question and we close our question and answer session for the earnings call of the first quarter. Let me remind you that we received many questions via WhatsApp from investors and the IR team will answer them one by one.

Milton, thank you once again. Thank you, Gabriel. I hand the floor to you to end our call for the first quarter of 2025. Thank you.

[Milton Maluhy]

Thank you, Renato. Thank you, Gabriel.

We'll be here together in all disclosures from now on. Ultimately, I want to thank you really for the support, the feedback and the recognitions, the positive and constructive feedback that we receive.

We're very satisfied with the evolution and with all the value we're managing to deliver. Value to clients, value to our employees, value to our investors and value to society at the end of the day.

Thank you everyone for having actively participated. The questions are always good for us to understand what you are looking at, what kind of concern you have, if there is any blind spot there, if we have any additional homework to do. In our culture we don't know everything.

But we are very excited. I think we are excited with the bank's evolution, with all the transformation we have experienced, the number of solutions we have delivered and increasingly stronger, and very thrilled about the prospects.

The macro challenge is for everyone. The micro challenges depend on each one of us doing well our homework and delivering even more value to our stakeholders. Everyone very practical. Humility is the name of the game. Everyone without any type of conceit. On the contrary, everyone with their feet on the ground, working hard and knowing that past performance is no guarantee of future performance.

Anyway, we have to continue being consistent here because this is a never-ending game. It doesn't end in the next quarter. I hope I'll be here with you again in the next quarter.

Thank you, once again. See you soon. All the best.

And for those who will join our conference call next week in New York, it'll be the best one of all the series to date. Over 130 CEOs confirmed, an incredible line-up. It'll be a great opportunity for you, investors that are here, to participate, talk, hold high-quality discussions.

See you in New York. Catch you next week. Take care.

See you.