Results – 1Q22

Opening

[Renato] Good morning, everyone. I am Renato Lulia. Investor Relations and Market Intelligence Director at Itaú Unibanco. Thank you so much for taking part in our videoconference to talk about the results for the 1st quarter of 2022.

This event is being broadcasted directly from our first Investment Center of Itaú Personnalité which was recently opened here at Faria Lima, the financial center of São Paulo. Here we offer a personalized experience to the ratios who prefer having personal assistance from specialists to make investment decisions or for other financial needs. We also have meeting rooms available to our ratios equipped for video conferences with a recording studio from where we are going to broadcast our Q&A session soon.

I would like to share some instructions for the better enjoyment of our meeting today. There are three audio options on the screen for those watching from our website. Listen to the whole content in Portuguese, listen to the whole content in English, or listen to the original audio. For the first two options, we will be relying on simultaneous translation. To select your option, just click on the flag that is in the upper left corner of your screen. Questions may also be submitted via Whatsapp. If you are accessing through the website, just click on the button on your screen, or send a text to the number +55 (11) 99144-5458. Our presentation today will be available for download on the hotsite's screen and also, as always, on our IR website.

Now, I will hand it over to Milton who is ready to start the presentation on the results for the first quarter of 2022. Milton, the floor is yours.

[Milton] Good morning, everyone. Welcome to our presentation on the results for the first quarter of 2022. The idea is to share some quali-quanti information with you to qualify our first quarter results and then we will move on to our traditional Q&A at the end of the presentation.

Slide 2 (quarter highlights)

I want to start the presentation by talking about our recurrent results. Compared to the 4th quarter of 2021, we got a result of BRL 7.4 billion. Taking an exclusive look at Brazil, we delivered a result of BRL 6.7 billion. I want to highlight that we've been working with an ROE of 20.4%, which is a pretty strong ROE, and looking exclusively at Brazil, with an ROE of 21%.

Another important thing to take note of. Our credit portfolio in the consolidated financial statement has had an increase of 0.5% reaching BRL 1032 billion, and when we look at our credit portfolio in Brazil, essentially BRL 831 billion. Another relevant piece of information to highlight in this quarter is our efficiency ratio. Looking at the consolidated financial statement, we have reached a ratio of 41.8%, the lowest ratio of the bank series. Looking exclusively at Brazil, 39.6%, running below 40%, which is a very strong efficiency ratio.

Looking through the years and a historical series, you will see we are operating with the lowest ratio we have ever reached in the series. Talking a little bit about ratio acquisition, I always like to highlight the quarterly publications. In this quarter of 2022, we have digitally acquired 5.5

million customers through our many products and channels. I am talking about Itaú products, Itaú channels, ITI itself and Credicard, in other words, all of our businesses and products.

Slide 3 (associative agenda)

I would like to put a lot of emphasis on this screen. We have been talking a lot about this within the bank and it has been generating interest in the market. So, to contextualize, I will talk a little about our associative agenda.

If you take a look here, what I wanted to show through this slide is that we have always had an associative DNA achieved through partnerships, acquisitions, businesses built alongside many partners, and trade agreements. We have been speeding up through this agenda. This agenda does not have the only goal to make new acquisitions and partnerships, it has a clear focus on improving our ecosystem, improving the offer of value and bringing more value to our ratios while knowing how to identify what are our strengths and what strengths are being developed in the market to which we can clearly associate with or, eventually, make an acquisition depending on the profile of the company, fintech, or startup.

In addition, we also have a Corporate Venture Capital fund and we have been very active. The purpose of this fund is not to simply invest to capture value in equity, but it is to guarantee we will be investing in companies that will surely improve our ecosystem and thus will be integrated with the bank to some business extent. And we want to capture part of the value that will be generated by the relationship with the bank itself. Obviously, these are companies that will also have relationships with other business partners and other companies. We are agnostic from that point of view.

So, just to name a few cases in commercial partnerships. I believe there are four that are worth highlighting. Starting with PayPal, an operation that has been very focused on e-commerce together with the network. Samsung and Apple. We've been making all our products, *iPhone Pra Sempre*, the Samsung one, selling products and funding our customers, and building long-term loyalty. Locaweb, which also has an important partnership with the network helping us in company businesses and digitizing many of our customers.

Then, on the Corporate Venture Capital agenda, we mention six investees. I won't go through them one by one, but it's just to give you an idea. There's Monkey, Tenchi, Liqi, Saks, Digibee and Paketá Crédito. Once again, there is always this logic of improving our core business and capturing value in equity. In M&A and Joint Ventures, we mention some cases here, some are already known to you, and we have already disclosed them in previous quarters. This is the case with Zup, Pravaler and Ideal itself, the brokerage company.

And more recently, the agribusiness marketplace, something that is super important for our journey increasingly focused on agribusiness. It’s a portfolio that has been increasing a lot. We became one of the investors in Orbia, which is a marketplace dedicated to the sector. In addition, we became partners with Totvs, a company in which we became exclusive in providing financial services for everything that is integrated with the Totvs ecosystem.

Slide 4 (customer centricity)

Moving on, talking about results, and showing you certain information without talking about customers would not make any sense. So, I brought a very simple slide here, very summarized, but just to give you an idea of how we have been organizing to focus more and more on the customer.

I will start with audience segmentation and engagement definition. We have been increasingly clustering our customer base and trying to understand each customer's behavior to capture the best way to deliver value and respond to a specific need in real-time. This means not only segmenting but also defining what is the best conversation with the use of analytics, the use of artificial intelligence, and machine learning. Since we have very rich information within the bank, we can get our customers engaged and have the best conversation with them. Aside from all of the investment in technology and data.

I've been telling you for a long time about all the investments we've been making in technology. We have also been working with data scientists, increasing our strength and our teams. And this has resulted in this combination of pillars. A much more robust delivery for our top customers. And the results are here.

A customer who is more engaged with the bank, when compared with a customer who is less engaged, just to have a comparison here, on a relative basis, we can penetrate eight times more with an engaged customer than we penetrate, from the point of view of credit offer and business, with a customer without engagement. NPS is 1.5 times higher for engaged customers. We manage to have conversions 6.3 times higher through the omnichannel so that our customers have the best experience, regardless of the channel from which they came in.

So, our conversion level is very strong, more than 13 times the transaction volume, how many transactions this customer does with the bank. And more importantly, more than 100% are what we call Daily Active Users versus Monthly Active Users. We manage to have frequency and a daily relationship with these customers. This has increasingly been our focus. Not only having customers-- customers are what moves us, it's what makes us grow, but much more than having customers, it's about engaging the customers we already have. This has been the central focus of our agenda.

Slide 5 (credit portfolio)

Let's talk about credit portfolios and some relevant information. The individual portfolio grew 4.4% in the quarter. And looking at the micro, small, and medium-sized companies' portfolio, we basically had a slight drop. Noting that in the large companies' portfolio we had an increase of 4.4%. In the year-over-year view, there was a significant increase, 32.9% for individuals and 21% for micro, small and medium-sized companies. Looking at this, in total, we had a slight increase of 0.5% in the quarter plus an increased annual rate of 13.9%.

It is very important to say that within this portfolio increase is the effect of the exchange rate variation. The Real appreciation in the first quarter had an effect of around BRL30 billion on our consolidated portfolio. A smaller portfolio. So, the currency effect is important. Not only because of the operations that we have booked, that is, contracted on the Brazilian balance sheet with our various customers, products, and foreign currency, as well as our Latin American portfolio which, basically, is done in other currencies, so there is a real effect against these currencies.

I would like to highlight something relevant. First, looking against December 2019, our secured individual portfolio represented 47.7% of the portfolio. If you look at the recent number from March/22, we closed at 53.3%. So, clearly, migration does have an important increase, with more secured products and less spread, but a safer portfolio from the credit point of view. And from the point of view of the unsecured portfolio, we went from 52.3% to 46.7%. So, rebalancing our mix in time.

Here is another important piece of information to share. You may remember I put a lot of emphasis on our flexible portfolio made back at the start of the pandemic. We froze a portfolio, which was the customers who really needed support in our Travessia Program to help not only individuals but also retail companies through this most critical moment. We froze this wallet at 53.5 and we took a picture of that moment. This portfolio currently stands at BRL 27 billion. If you look at it, it has already reduced virtually 50% in the period. It is a very strong amortization, this portfolio has been amortizing in the order of BRL 5 billion per quarter, and more importantly, if you look at the shortage of this portfolio itself, you will see that we have not been renegotiating. In fact, it is a real amortization, and we have not taken these customers to the renegotiated portfolio either.

So, this information is very important. Especially when you see that this portfolio today has a 62% real guarantee. Why? Because shorter-term unsecured products have been more heavily amortized early on, a longer portfolio of secured products is left over. Vehicle financing, mortgage loans, and a portfolio with a much better risk profile. In addition, if we look at the amount of provision indicator, the volume of provision over delays +90 of this portfolio has 230% coverage. Pretty solid figures. Naturally, it's a more sensitive audience, but it's been having a very healthy performance.

Here is another piece of information I think is very important to share with you, and it is very important to look at this figure from the point of view of the bank's context. When it comes to the renegotiated portfolio over the total credit portfolio, we are at the lowest level, 3.3%. What is more important, I was just talking about the credit portfolio, which had a slight increase. We lost BRL 30 billion due to the exchange rate effect. If you look at it nominally, this number is also smaller. I mean, not only has the percentage been falling, but nominally, the bank's renegotiated portfolio is smaller.

So, this shows how we've been putting a lot of emphasis on having a quality credit portfolio with good performance. We haven't been incrementing and we haven't been selling portfolios. I always mention we haven’t been selling. We may resort to selling a portfolio at some point if it makes economic sense for the bank. But I think for comparability purposes, this is very useful information for you.

Slide 6 (financial customer portfolio)

Well, highlighting the margin. First, there is a strong emphasis on the increase that we had when we compare last year’s first quarter with this year’s first quarter. There was a 23.9% increase which is even above the highest point in our guidance in the financial margin with ratios. It's a very solid, very strong result.

Let’s remember that this quarter has fewer working days in the calendar, therefore, compared to the previous quarter, there is always a seasonal effect with fewer days, and this affects the results. Even so, we managed to deliver a margin in the quarter very much in line with the margin of the previous quarter, which had already had a significant increase compared to last year's 3rd quarter.

Once again, showing stability, consistency, and very strong results at our margin. When I talk about the annualized gross margin, we had an increase of 20 BPS, from 7.7% in our NIM to 7.9%, and looking at the margin in Brazil, we went from 8.8% to 8.9%, clearly noting an increase in our margin and quite robust results.

Slide 7 (financial margin with the market)

Margin with the market. We told you in the guidance that this would be a more difficult year. That is basically due to two reasons. The number one reason was the interest rate effect and the increase we saw in the curve. This, of course, affects many of our positions, although the bank has always operated with hedging.

We don't keep our liabilities open; we do active hedging. Whether in the banking book or the trading book, naturally. That said, we had a good result in the quarter, above what we had imagined, comprising BRL 1 billion in Brazil and BRL 500 million in Latin America, which is in line with the historical series. These BRL 1 billion results came above our expectations, so we had a good quarter in terms of margin with the market. And, unlike in previous quarters, we wanted to emphasize the cost of the capital ratio hedging.

You may remember that at the end of last year we hedged the capital ratio. Given the size of our bank's exposure to foreign currency, mainly depending on the positions we have in other countries, it has always been very volatile due to exchange rate variation. Which is not healthy, managing a balance sheet the size of ours with this level of volatility.

So, we decided to contract this hedge, it is always being carried out, and we have been highlighting it. So, we had a hedging cost this quarter of BRL 400 million. If it wasn't for that, we would have had a naturally higher margin. In addition, we also dismantled important available-for-sale positions, the positions that remain in equity. We reversed around BRL 560 million in capital losses this quarter, which is also included in this number. The most important thing is that all these negative entries were made in the recurring result, which is where they should be, given that it is the recurring result of the treasury. They are all classified in the bank's recurring result.

Slide 8 (services and insurance)

Speaking of services and insurance, this is very important. Our guidance, if you remember when we handed it out, is already done as a basis for comparison, excluding XP during the first quarter and the five months of last year. So, our guidance, the result we had with XP, keeping in mind that the spin-off was carried out at the end of May last year, we still had five months. This is important information to look at here and to look at our comparable LAIR also when we compare it with the five months of last year.

So, services and insurance portfolio. There was a great increase when we look year-over-year, 18.6%. Emphasis on checking accounts and resource management. On the other hand, in terms of investment banking, we have had a weaker quarter due to market volatility. We have seen less relevant windows in general, especially for the equity market. And that has slowed down our investment banking activity. Once again in line with what I've been saying to you.

When we posted this year's guidance, we expected lower variable income activity in the investment bank. There is something very important I would like to highlight here that is the insurance results. We have grown 24% year-over-year. If you look at a longer series, it's the biggest growth we've had for many years. Very strong. We have had a growth of 10.4% just this quarter.

Looking at insurance, you will see that in prizes won there was an increase of 19%, keeping in mind that the insurance business is a retail business. So, you stack up the sales and this result accumulates and generates results over time. A very simplistic estimate of the prizes issued, virtually 20, 25% is recognized as a result in the year itself.

Therefore, we are building a very solid insurance portfolio for the years ahead, but we are already reaping results. We had an improvement in our combined ratio of 3.8 percentage points, not only due to the increase in revenue and prizes but mainly due to a significant drop in loss ratio, 4 percentage points. Another highlight is the volume transacted with cards, an increase of 29.8% when we look at the 1st quarter of 2022 against the 1st quarter of 2021. Issuing cards has increased significantly. And we can also look at acquisitions, a very strong growth of 22.7% as you can see here.

And finally, let’s highlight the products section. Open shelf, investments. We have the advantage of having a full bank where we deliver the best investment products to our customers. Whether they are open platform products, from third parties, which we distribute with great emphasis or our own products. When we see moments of volatility and changes in interest rates, what we need is to have the best conversation, as I was saying just now, and the best investment. Bearing in mind that all our investment advisors are not compensated for the product they sell, regardless of whether they capture a higher or lower spread, the compensation of the commercial force is exactly the same. This is very important to get rid of any type of conflict so that we can deliver the best product, the best conversation, and the best alternative to our customers for that cycle and for that moment in the economy.

So, you can see that the shelf of our own products grows as a result of this migration from the open shelf. This is very healthy for the relationship with our customers.

Slide 9 (credit quality)

Credit quality. I will start by showing short delays. NPL, 15 to 90. You can see an increase here of 30 BPS. If you go back to the call from the third quarter of last year, you will remember that I have been saying for a long time that we expect a gradual normalization of our delays.

We spent two years, 2020 and 2021, with very low delays. For a number of reasons. Whether it's issues of lockdown, the greater increase in household savings, less consumption, and less activity. This caused our delays to be at very low levels. In addition, the government's effort with fiscal stimulus and providing resources such as the corona vouchers enabled the population to adjust financially in a very relevant way during this period. The delays start to come gradually, but as you can observe here, still very well behaved.

Let’s keep in mind that we have been increasing our portfolio. With a better mix, as I said just now. This is reflected in the quality of our credit indicators. So, if you look here at the NPL, the longest delay above 90 days in total went up 10 BPS, a very low increase. If you look at Brazil, it’s 10 BPS and Latin America was virtually on the side.

Breaking it down and looking at Brazil, the short delay for individuals goes up 40 BPS, which is where we really believe it is a gradual movement. Once again, it is an adjustment to what we thought would be a natural correction of the historical series. Still, they are levels below what we were running on before the pandemic. I have also been saying that our best expectation is to stabilize at pre-pandemic levels, which is quite reasonable to expect.

Looking at the long delay, individuals go up 30 BPS as you can see here. In micro, small, and medium-sized companies, the portfolio is well behaved, and large companies also show very comfortable indicators. Let’s notice that for micro, small, and medium-sized companies it went up 40 points. So, what I wanted to make clear to you: it was absolutely expected. Let's remember that in the first quarter, just look back at any historical series, the first quarter, whether for individuals or micro, small and medium-sized companies, is always a more difficult quarter. Because a lot of expenses concentrate at the beginning of the year and delinquency tends to suffer a little more.

So, when we look at the historical series, this seasonal delay is very much in line with what we observed in previous years, it hasn’t changed much. Most importantly, it was absolutely expected. Even so, when I look at this delay in micro, small, and medium-sized companies, we expect it to be stabilized very close to this level. In other words, don't expect big deviations when we look at the short delay in micro, small, and medium-sized companies. And overall, yes, we expect, once again, a gradual correction. There is some expectation of growth in delays, but once again, within what we can imagine, and returning to pre-crisis levels of yet another well-behaved portfolio.

Slide 10 (cost of credit)

Let’s talk a little about the cost of credit. There are two pieces of information. We can see that the cost of credit in the quarter was BRL 7 billion. Importantly, a much larger portfolio. We expect the nominal costs to really increase. What’s more important is to look at the cost of credit over the portfolio. If you look at 2.7%, we are still running at levels below pre-pandemic levels. So, it’s a very comfortable cost of credit on the portfolio.

Bearing in mind that you cannot look at the cost of credit in isolation without looking at the entire result of margin with ratios, the top line. So, what we follow very closely is the net financial margin. Our ability to generate results with quality, sustainably, and consistently. Very solid coverage ratios. So, looking here, in total we have reached 232%. In retail, 210%, so there's a slight drop. But if we compare it with the average coverage ratio from 2015 to 2019, we historically ran with 167% coverage.

What I want to say is that 210% is still quite comfortable when we look at previous periods. We continue to have a very protected balance sheet, with a good level of coverage for delays.

Slide 11 (non-interest expenses)

Non-interest expenses. Here it is about our discipline and our everyday consistency. We've also been talking to you about this for a long time, and the numbers speak for themselves. Looking here, there was high inflationary pressure in the period, whether through the collective bargaining agreement or the correction of our balance sheet, which is done once a year. The IPCA and the IGPM.

All these inflation rates have a very strong impact on our non-interest expenses. Even so, when we look at it year-over-year, we are growing well below inflation, 3.8%. Looking at the quarterly view, we still had a drop of 2.7%. Looking at non-interest expenses here. On a consolidated basis, we grew 2.9% year-over-year, and there was a 4.2% decline in the quarter. An important message. All this retention effort... not retention, cost containment and reduction have been shown in our core cost, which is the cost of actually running the bank. From processing, volumetry, everything we do on a daily basis, the entire sheet, it was zero in the period.

In other words, we absorbed all the inflation and still controlled any increase in expenses without ever failing to invest in the bank of the future. What I call the bank of the future is what we are going to invest in, what we are going to do in terms of expanding new businesses and investing in technology. So, looking at this, we still have a very solid delta investment. And we continue to grow the bank. Investing in franchising, investing in commercial expansion, investing in new businesses and existing businesses. That has been our focus. We are always looking ahead, with long-term vision and never reducing costs to deliver the result of one quarter only.

And our efficiency ratio that I highlighted at the beginning. You can see a slightly longer series. We were running at the lowest levels in the series, 41.8% in the consolidated financial statement and 39.6% in Brazil. Very importantly, in our efficiency ratio, we consider all expenses. We make no exceptions for other expenses. All expenses are here. And, again, for comparability purposes, it is very important to take this into account.

Slide 12 (capital)

Speaking of capital, what is the core message? What we generated as a result of the dividend provisioned in the 1st quarter was enough to finance the solid and robust growth of the portfolios. So, we generate 0.5% of capital through the result, and we consume the same 0.5% with the growth of RWA, Risk-Weighted Assets.

On the other hand, there were two important events here. We had already disclosed them. It was the acquisition of a portion that was still missing from the bank in Colombia made by Itaú Corpbanca in Chile, so there was an acquisition made. This was already contracted back in 2014, it is not a new operation, but it has now been liquidated. And on top of that, as you may have seen, we announced a Voluntary Dismissal Plan. We reopened, with some slightly different conditions, our Voluntary Dismissal Plan that had been created a few years ago. At that time, we recorded a provision in the non-recurring result, just like we did this time.

More importantly, in this entry here, I was talking about expenses just now, it does not include any expenses incurred in the quarter of 2022. It comes 100% from what we expect to have in expenses with this plan, which is made extraordinarily. We don't expect to have it on a recurring basis, that's why we've been making these provisions like that. That said, our capital closes at 12.5%. This is AT1. Bearing in mind that we have a regulatory limit of 1.5%, we are very close, but we are able to use all the perpetual bonds we have, issued in Brazil and abroad. At the same time, our CET1 capital reaches 11.1%

Slide 13 (guidance 2022)

Guidance. So, as I've been saying to you, consistency, transparency, and coherence. I think that's the name of the game. We are not going to change absolutely anything in our guidance. The reason why we have been, for a long time, our last guidance was posted in the first quarter three months ago. Looking at everything we expect to deliver in 2022, we continue to look at it with the same expectations.

So, credit portfolio, growth in the financial margin with customers. I was just saying that in the consolidated financial statement we have 23.5%, and we have been running above the highest point in the guidance. Anyway, we are still very comfortable with the guidance that was disclosed to you.

Slide 14 (end of the results 1Q22)

With that, I would like to wrap up the results and I want to leave most of the time for us to chat and clarify questions that may arise. Alright? Thank you very much. I'm going up to the studio now to meet Renato so we can continue our chat. Thank you, everybody.

[Transition – 20 seconds]

Q&A Session

[Renato] Today's presentation is available for download on the hotsite's screen and also, as always, on our IR site. Good, we're ready. So, let's now start with the Q&A session. Milton just got here. All right, Milton?

[Milton] All right, Renato.

[Renato] I will hand it over to you now to start the second part of our results call. The first question is already here, and it comes from Flávio Yoshida from Bank of America Merrill Lynch. Flávio, good morning.

[Flavio Yoshida] Good morning, thank you for the opportunity to ask questions. About my question, Milton, you talked a lot about the guidance, which hasn't changed, and what we've been seeing here in the 1st quarter are stronger figures than in the guidance, right? So, I think that what stands out the most in terms of margin with the ratio, which as you mentioned turned out higher, but when we see the growth and how it happens, it happens, mainly, in pre-pandemic margin lines.

So, whether it's about credit cards, which are at a strong growth rate, or legal entities, the SMI share is also growing stronger. So, I would like to understand what your view is, in short, so as not to have changed the guidance or what you are seeing regarding the margin throughout the rest of the year so as not to have changed the guidance. Will the margin really be more pressured as the year progresses? Is that what you are seeing, and why is that?

[Milton] That's great, Flavio, thanks for the question. I hope you can hear me well. Sorry again for our technical glitch at the beginning, but I think it's working fine now.

Regarding the margin, what I would like to reinforce is that we understand that, in fact, we had a very solid first quarter, above the expectations in the guidance. But as the guidance is annual, looking at our best expectations, we really believe that we will stay within the guidance thinking year-over-year. I believe that is the central point. We see an advance in the first quarter in some lines that bring more results, it's true.

There are a number of reasons for this. There are seasonality issues, billing issues, and activity resumption issues. There is more inflation, which also helps to drive card billing and bigger consumption by families. And in the fourth quarter, naturally, there is the seasonality effect with getting Christmas bonuses and the amortization of some lines, this ends up causing the balance of some products, such as special credit and some special credit products, to have a reduction.

In addition, within personal credit, there is a renegotiation line, and I was just saying that this is a line that reduces, not only in percentages but also nominally, which helps us both in terms of credit quality and from the margin point of view as we recover margin. We started the year very strong. Obviously, our projection made at the beginning of the year contains a degree of expectation regarding several aspects.

When we prepared the guidance, there were some factors that, in fact, have changed. I would say that inflation is one of them, interest rates as well, some macro issues, but looking year-over-year we can see that in the last quarter of last year we had a very strong acceleration in the margin, 13.2% quarter over quarter.

So, we have been accelerating over the past year, which means that the result of the margin with ratios converges throughout the year to what we are seeing in terms of expectations in the guidance. This is how we see it; we are still very positive and comfortable with the guidance. We didn't see any reason to change it on any of the lines.

[Renato] Thank you very much, Milton. Thanks, Flavio, for the question. Oops, I can see Tito on screen. Hi Tito, good morning. Good to see you.

[Tito] Hi Renato, hello Milton, good to see you. My question, just in terms of year growth and NII and provisions, you had a good growth in ratio NII as you mentioned. But provisions are also growing quite a bit and there's concerns about asset quality deterioration in the current market environment. So, what do you think about that growth? Are you concerned about asset quality deterioration? There is an increase in unsecured loans. Do you see potential risks from that at some point later in the year? How do you think these two lines should be kind of involved hand in hand?

[Milton] Ok, Tito, thank you very much for his question. Let me go through some messages here from the cost of credit and the perspective looking forward. First of all, we are very positive about the guidance. We still believe we are going to deliver the figures with the guidance we presented to the market at the beginning of the year.

Second, we saw a deterioration situationed by the the second semester of last year when we found out that we were seeing some difficulties in some specific vintages, so we are very fast here, and other models predicted a lot, so we made the decision to reduce the origination of some credits throughout that period, and this will, of course, have a positive impact this year, because we made a very fast decision, but anyhow I've been saying to you and to the market that when you look at 2020 and 2021, were two unusual years.

That means that we saw the delinquency ratios and also the cost of credit per portfolio at a very low level. The lowest level ever when you look at a long series. So, it doesn't seem reasonable to have those indicators so low. So, our view and what we've been saying to the market is that we expect a gradual normalization of delinquencies throughout the period. We still believe that by the end of the year we will be below, or very similar, to what we were seeing before the pandemic.

So, this is basically our view. We saw some growth here in some clean portfolios in the first quarter, but in a very comfortable way, because 80% of that, or even more, 88% in some portfolios of well-known ratios that we have a long-term relationship where they were consuming more and using more some credit facilities, the overdraft is a good example. When we go back to the first quarter, we have to remember the seasonal effect of the ratios of their thirteenth payroll, paycheck, and they pay credit lines, and we are also comparing on a nominal basis with the previous quarter which had a much higher portfolio.

When I look at the bank's NIM and NII, we are very positive, with more than 20% growth, and of course with a little bit higher cost of credit, but in the bottom line very positive for the balance sheet. We're still comfortable, but we expect, as I've been telling you since the third quarter of last year, that delinquency ratios will increase throughout the three quarters that we believe, but they are still normalizing or getting more stable very near or close to what we were seeing before the pandemic start. We are still comfortable with the figures, but again, we expect a slight deterioration throughout the quarters that we still have ahead.

[Renato] Thank you Milton. Now, the next question is from Thiago Batista. Hi, Thiago, how are you? Good morning, welcome.

[Thiago Batista] Good morning, everybody. Can you hear me?

[Renato] Yes, we can.

[Milton] Yes, we are.

[Thiago Batista] I have a question regarding the bank's capital. The bank's Tier 1 reached 12.5% this quarter, 100 BPS below your target. This is without considering the consumption that will come with the purchase of the 11% of XP, or that came with the 11% of XP. When you look at capital, is it something that bothers you? And what would be the plan to rebuild that capital? You commented, Milton, that the bank is growing, and it is creating 50 BPS of capital per year, per quarter, it consumes 50 BPS of capital, but you are 100 BPS below that level. What is the bank's plan to rebuild this capital and/or if we can see a reduction of this target of 13.5% given that over-hedging is over and given the new hedging approach that reduces Basel volatility? How do you think the recovery of the bank's capital will play out?

[Milton] – passer grammarly That's great, Thiago. Thanks for the question. Well, there are a number of important points to share with you. The first is that, in fact, with the end of over-hedging starting this year 100% adjusted to the new Central Bank rule, and with the end of tax symmetry and with the hedge of the capital ratio, we expect much less exchange rate volatility. You can see in the quarter itself there was no exchange rate effect as we usually see. I always say that hedging the capital ratio is not a structural position of the bank. Directional, it is actually a hedge for us to take the volatility out of a ratio that is so important for us to manage our assets prospectively.

So, there are a number of points here. The first, in fact, today in our board, and we have been working with 12% of CET1 and 1.5% of AT1, 13.5%, we are comfortably working with 11% of CET1 and 1,5% AT1. So, from the point of view of risk appetite, we have already reduced our appetite by 0.5 percentage point without impacting the bank's dividend policy at all. We continue to distribute only what exceeds 13.5%, which is what we know. So, it was the first move we made because we understand that today the bank, operationally, can allow itself to work with that level of capital because the buffers that existed in the past, as you said, were closely related to these events. Obviously, in certain circumstances, in more difficult moments of the market, we naturally end up working with more buffers, especially for the dividend policy, because we want to invest and continue growing the franchise. My goal is not to pay more dividends, but to properly monetize the bank's capital. This is the first point.

The second point is the following. We expect that the Risk-Weighted Assets, as we start reducing the concession at the margin a little, the more adverse scenario should put less pressure on the growth of the portfolios, which naturally causes our capital generation in the quarter to be more than enough to absorb any growth.

There were two specific events as I mentioned just now. The POS itself brings benefits and recovers capital over time. The provision is made along with the expenses incurred, there’s benefit from a reduction in frame, which brings more results and, therefore, restores capital. But, in time. And the acquisition of Itaú Corpbanca Colombia was something that had already been contracted back in the day and we simply made it happen. The central point of your question is about an investment that we made in this stake that we acquired on April 29, the BRL 8 billion from 11.36% stake in XP.

Let's remember that, according to the capital rule, any investment above 10% in financial institutions means that we have to fully deduct the value of the investment, so you are correct. If you look at the investment of BRL 8 billion in isolation, simplifying the math a lot, we lose around 0.8% of capital with this acquisition. On the other hand, if we sell only 1.37%, that is, going back and placing it within the 10%, which is the limit, we will virtually return to the total capital of this acquisition, of course not 100%, because what is below 10% is weighted. The FPR, the Risk Weighting Factor, is 100%.

In practice, what happens is that with a small sale we are able to recover a good amount of the capital and this will be done at a timely moment, but it is something that depends exclusively on us. Because this lot is not a relevant lot and we can do it, in short, with private sales, block trade, naturally, there is demand for a volume of this size that is not relevant to the company's float. So, we are quite comfortable. This depends exclusively on us. This is something that will be done. And when we look at it prospectively, we have been managing our portfolio more and more actively, the fixed income market is a good example.

Everything that we have originated, especially longer credits, we have tried to distribute in the market to have a higher balance sheet turnover, especially for large tickets, for ratios of large companies, for our large company ratios that have a market of well-developed capitals. And we have naturally been making decisions optimizing the level of capital we generate. So, we're comfortable. Our expectation is to rebuild this capital over time, always working within this band, with appetite already 50 points lower for bank management purposes and not for dividend policy purposes, there is an important difference here. So, we are comfortable, we think that the capital will be restored over time, foreseeing a lower origination also during the year.

[Renato] That's Perfect. Thank you, Milton. Thank you, Thiago. We already have another question. The next one comes from Gustavo Schroden from Bradesco.

[Gustavo Schroden] I have a question about treasury and the guidance. Milton has already explained a lot about the treasury result, that it was even higher than you expected. Anyway, if you think about the guidance where you disclosed from 1 to 3 billion, 1 billion has already been achieved, yet you haven't changed the guidance. Does this mean that the next quarters will have quite weak results? Have you already mapped this out, or is there a possibility that maybe at some point in the second quarter there will be an upward revision of the guidance? I just wanted to understand that dynamic. Because it was surprising, BRL 1 billion was not what we had in mind.

[Milton] Undoubtedly. Gustavo, thanks for the question. It's exactly what you said. We really had a better quarter than we imagined. We know that we are going through a moment of enormous volatility, not only in the domestic market, but also in the international market with everything that has been happening. There are some important movements regarding the war between Russia and Ukraine, also China with zero tolerance for the lockdown, interest rate emphatically increasing in the US above what the market itself had been expecting and clearly behind the curve and the adjustments of interest rate, anyway, so we expect more volatility.

In our structural portfolio, that is, trading, we continue to perform well despite market adversities. We are still delivering a lot of results. In the banking book, then yes, structurally there are different effects when we look at the various interest rate levels, mainly in Brazil and the US. So, our best expectation is we should have another two difficult quarters ahead of us. And we must frame the result within the guidance. The cost of the hedge is highlighted there, BRL 400 million in the quarter, and it should be, obviously, stable. It depends a lot on the interest rate differential, but our expectation is that it will be something close to BRL 2 billion as we said at the beginning. This is what we should have throughout the year of ratio cost, ratio hedging.

We had a good quarter in margin with the market. The prospects are not the best, anyway, we have seen this in the market as a whole. But it has a lot to do with the structural positions that we have. And remembering that this year we also have the end of over-hedging in full, that last year still showed an important result, in the order of BRL 800 million.

That was a long answer to tell you that my expectation is to stay within the guidance, we shouldn't review it. Unless there is some additional opportunity or volatility from which we can benefit. For now, the guidance remains as it is throughout the year.

[Renato] Now, Rosman is here with us. Rosman, what's up?

[Rosman] Good morning. Can you hear me?

[Milton] Yes.

[Renato] Very well.

[Rosman] Excellent. I just wanted to ask about other blocks of the result. There are several openings in the release, and there we can see, for example, that the ROE on credit fell year-over-year. That the wholesale bank indeed has a very high ROE, and the result is growing even more than the retail bank. I would like to understand a little bit of your view on these trends for the upcoming quarters. Thanks.

[Milton] That's perfect, Rosman. Thanks for the question. In fact, basically, we have seen growth in some portfolios at a speed that is even faster than in the result of services and insurance. So, we're relying a little more on credit in the results than historically, we have already gone through moments of greater or lesser reliance, but we are in the fourth, fifth year of a cycle of portfolio growth, which naturally ends up bringing greater reliance on credit results.

In our view, we shouldn't look at credit in isolation. Everything we do with credit, whether in retail or wholesale, is in order to serve our customer in the best possible way, so cross-sell and everything we generate with customers is fundamental. We see wholesale having very solid years. And in wholesale, the level of delinquency has been very low for a long time. I'm talking about any of the portfolios that you look at, corporate investment banking, large corporate portfolio, middle market portfolio, these are portfolios that come with a very low level of delay and cost of credit over the portfolio which shows solidity. Companies are much less leveraged than we saw in previous periods and much more prepared for the challenges ahead.

In fact, in wholesale, we have been able to grow very solidly with incredible results mainly driven by investment banking results. In the big picture, not only in the variable income section, M&A, and important growth in the fixed income section. In the 1st quarter of this year, we had record results in fixed income when compared to last year. Nonetheless we imagine there will be a certain deceleration in the 4th quarter which is natural of the elections.

But we should have three very solid quarters for the fixed income world, perhaps not so strong for equity, and a very stable M&A. In general, the wholesale is doing quite well, and the cost of credit has been a very powerful lever in the wholesale in addition to the ability to generate results. In retail, the catch-up of delinquency ends up coming from retail. We are going through a period of very high inflation. In April we should have a peak of 12% of inflation and interest rates rising rapidly. I think that regardless of the magnitude of interest rates, what really impacts is the speed with which they rise. Let's keep in mind that we went to a low of 2%, and now we are running at 2.75%.

Our expectation is that there are still another 100 points left for the Central Bank to raise interest rates, which naturally ends up impacting some portfolios and some specific spreads. Some portfolios are more or less sensitive to it. At the topline, in marginal employment, we always try to distribute. For some portfolios the interest increase has some limits, be they regulatory, as is the overdraft, as is the INSS payroll itself which had an adjustment in the rate, but much lower than the interest rate rose. There are other portfolios that we suffer in funding, so the savings portfolio for us is a great asset.

Let's bear in mind that the bulk of savings deposits are spontaneously done by customers. There is no kind of goal or objective for our sales force to sell savings to customers. But it is still a safe product in the eyes of many customers, with several benefits, so it still has a very large volume, and we have a large savings portfolio. When interest rates rise, we change the rule on how to remunerate savings. And, of course, that comes at an additional cost.

There is also an effect of what we call credit, which has to do with the cost of funding for the advances we make in the bank as a whole, especially in our acquirer. Bearing in mind that our acquirer is 100% ours, so the entire funding cost effect is on the margin with customers, it is inside, in the NIM, in the... in the bank's NII. And MDR is within the service revenue. So, let's remember that when we change the commercial regime and pay the merchant on D+1, for example, the cost of funding of this advance is in the margin with customers, the MDR of this transaction is in the services revenues and the RAV and advance issues stays there.

So, all in all, we do see pressure due to the increase in interest rates. We have been able to penetrate products with higher profitability, but with a lower marginal profitability than we observed. Our expectation is that this should be the key, especially when we see the increase in delinquency to come in subsequent quarters, as I said just now.

So, this also has an effect from the point of view of profitability. I think we will see a return on capital very similar to what we have seen in credit, I don't see any big changes. Mainly, what we consider here at the bank is our cost of capital. It has gone up and up and we are running at 14% cost of capital. This is how we infer and calculate our cost of capital. It's even a little more conservative than what we see in the industry average, which has been running at 12.5%, 13%, but we prefer to run with real conservatism, and we keep adjusting the margin in the new portfolios and seeking adequate level of profitability given our hurdle of allocated economic capital and expected creation of value in the portfolios.

It's a long answer to give you an insight into how we've managed this. Obviously, the result is still very strong as all value creation is based on everything we generate from service and insurance revenues, banking books, and everything that is not called credit, and the trading portfolio itself that has also generated good value, but we keep it separate.

[Renato] Great. Thank you, Milton. And following the order, we already have Jorg Friedmann from Citi here with us. What’s up, Jorg?

[Jorg Friedmann] Hello, how are you guys? Thanks for the opportunity. Good morning, Milton and Renato. My question is in line with what Milton said about customer acquisition and engagement. I think the genuine effort that the bank has been making to try to transform itself into a customer-centric platform is increasingly clear. This has become a trend in the discourse of many banks, but we know how difficult it is in practice, especially given the legacy systems.

During this call, I think Milton emphasized the delivery of insurance and investments that I see very much associated with this quality-centric effort. What other business units, in your view, Milton, have good opportunities for improvement within the bank? I think that maybe the brokerage part could improve, given the bank's potential, I don't know if my view is correct, but I would like to hear from you. And through this opportunity, I would also like to do a follow-up and ask that, if possible, you also comment on how you see the regulatory flexibility for M&A for these opportunities. It was clear that with the last few banks, BACEN has limited additional banking concentration, but I don't know if this environment of rising interest rates and the difficulties of some startups can lead to the consolidation of this universe as well. Thanks.

[Milton] That’s great, Jorg. Nice to see you. Thanks for the question. Look, deep down, I've been saying a lot that our mantra here is cultural and digital transformation, the whole efficiency agenda, but all of this only makes sense if we really have an emphatic vision of customer-centricity.

Some information here. We have significantly changed the way we look at incentives related to customers. We have been changing this in the whole bank. All our employees, without exception, have customer targets in their contracts. All of them. I'm talking about everyone including accounting, people relations, the risk area, they all must have a really dedicated look at the customer.

Obviously, to deliver that, we need a few things. The first is the modernization, which you mentioned, of the legacy system. We have already migrated 25% of legacy systems to the cloud.

There are more than 8 thousand business services and we have already migrated 25% of them. And when I say migrated, it's not just about not processing that software or that system in our data center and taking it to the cloud. Going to the cloud requires modernization, decomponentization, new architecture and cutting-edge technology. We are still up and running in this process, our best expectation is to reach the end of this year with 50% of the legacy platform modernized. However, we are prioritizing the customer view.

We start from the customer's pain, understanding what is really relevant, and the modernization of our platforms comes from there. So, by the end of the year, when I say 50% of business services, it's 80%, it's 80-20%, of what is really important for the customer, 80% of what is important will be modernized and running in the cloud. It's a transformational shift. I would say it is a game changer for the bank.

Why? Because we will already have 100% of the communities, squads, tribes, whatever name we want to give, operating with modern platforms, which changes everything completely. We measure the quality of delivery from what we have in the legacy to what we have in new and modern platforms. There is the speed of production, time to market, correcting incidents, testing, making mistakes, learning and correcting, understanding customer pain and advancing their needs requires a huge change. And the amount of time you dedicate to developing a series of lines of code and a delivery of value to the customer, reduces substantially. In addition to bringing super efficiency, with much smarter use of processing power.

So, in our view, investments have been advancing very well. You touched on the brokerage point. We not only acquired Ideal, which in our view-- we still have to wait for regulatory approval, we should make an important leap in terms of platform and quality. We have made important investments in our legacy brokerage platform to ensure that we will have deliveries, not only for the institutional world, but for large accounts, especially for the retail world. We can already see developments in our home broker, all the secondary trading part has already been put in place and it has been working, in short, we are coming... The RLPs, mini contracts, all of that were features, products and services that we didn't have a short time ago.

So, we are making an important advance, we have changed the logic of investing in technology in the business, once again understanding the need and demand of each business and customer needs. I see a lot of opportunities in retail. In the realm of cards, we've been making a lot of progress and the NPSs are pretty solid. In the investment world, we have been doing a great catch-up, delivering value and delivering quality and experience. In the insurance world, the growth is really strong as we have seen. Our expectation is for continuous growth, and again, it is not enough for us to carry out centralized management without understanding the customers' pain and seeing how we should evolve.

So, in my view, we end 2022 with relevant advances in the bank's NPS in its various businesses, I mean, there is not one business there that is experiencing greater or lesser difficulties, they are all advancing. And for next year, our expectation is to really start to take off with the much more modernized platform. These are very relevant expectations, all the investment that we have been making is not for nothing. Just to give you an idea, of the 14,000 people we have in technology, 80% of them are dedicated exclusively to modernizing the bank and delivering value at the cutting edge. Only 20% are dedicated to running the bank.

This shows the size of the appetite and investment that we have been making, and we really believe that with everything we are seeing we can absolutely compete on equal or even better terms with several of these new companies and, at the same time, in what we see value in companies that are in the market. Then to your second point, we go to an associative agenda, whether through CVC, commercial partnerships, or the mergers and acquisitions agenda of what we've done so far. We didn't have any kind of counterpoint from the regulator or CADE. These are smaller deals, obviously, and I don't see any problems. People are always on the lookout. We did not fail to make any transaction because we were concerned with regulatory issues.

We know that the specific case in 2017 was quite complex. We made the negotiation for the future control of XP and in the end, it was not approved by the Central Bank, but we still expect, naturally, a much more competitive market, and it is worth looking at the market share of market cap, which has been taking place since 2017. Several other companies gained market share, from a market value point of view, not so much from a LAIR point of view. But this shows a much more competitive market than we had observed. So, I imagine that the processes of eventual approvals, deals, and such, should be much more relaxed than what we observed a few years ago.

[Renato] Thank you very much, Milton. Sometimes, it is difficult to get the cultural transformation across to the market. But we know how fundamental this process has been and will be. Skipping to the next one, we have Henrique Navarro from Santander. What's up, Henrique? Good morning.

[Henrique Navarro] What's up, everybody? Good morning. Thanks for the opportunity. My question is about delinquency. I think delinquency is the biggest concern of investors today. In the already disclosed results from the banks, the 90-day delinquency has not been a point of concern.

In Itaú's results, 90-day delinquency is in line, in fact it is even a little better than that of other banks, but the greatest asymmetry is in 15-day delinquency. The 15-day delinquency of the banks that reported left the market a little worried. We even had worsening rates in individuals of 90 bases. And the market's concern is that this short-term delinquency will somehow translate into 90-day delinquency. In Itaú's case, specifically, the 15-day delinquency is completely normalized and under control. It is in line with a portfolio that is heading towards a higher risk profile.

So my question is, is this symmetry in the 15-day delinquency that we saw between Itaú and the rest of the market because it is a different moment for the portfolio? Eventually, may there be an increase in this 15-day delinquency, is it some portfolio profile, credit cycle, etc., or we really shouldn't waste our time worrying about 15-day delinquency because it's very volatile, it's very seasonal, and anyway, it is what it is. I would like to hear a little more from you about this 15-day delinquency rate, which, in my opinion, was very normalized. Thanks.

[Milton] Henrique, thanks for the question. It's a pleasure to see you here. You asked this question in the last call, right? About the issue of credit quality and growth. It's clearly a point you've been following quite closely.

What I would say to you here is the following: we continue to see a gradual normalization. Let's remember that the short delay, especially in this first quarter, has a seasonality, just look at the historical series of the bank itself or the market. There's always a deviation in the short series, okay? And we saw a deviation very much in line with what we used to observe in previous periods.

That said, looking forward, I don't see big increases in short delays. I think that looking at the total in isolation and then comparing it to Brazil, I see it very well behaved. When I see it stretched out in portfolios, I think it has had an increase. We do expect some further increase in delinquency rates for the next quarters, but we hope to stabilize it at very comfortable levels. And when I look at +90, I think it will also continue to rise in Brazil and stabilize in the pre-crisis period, at those levels. So, I think it's pretty good behavior.

There are two very important levers here that I make a point of emphasizing every time I'm asked. First, there is not even one dollar of portfolio sold in this series. So, we have not been selling active portfolios. We know that selling active portfolios positively impacts the indicator, but we did not do that. So, I think that whenever you do the comparability effect, it is important, and you certainly know this too, to incorporate the effects of the short portfolio to really compare the lagging indicators. That's what we do. When we compare ourselves, we reincorporate the portfolio sales to know if it were not for the sale how the delay would have played out. And also, to compare relative performance. This is a very important first aspect.

The second aspect, just as important, is the renegotiated portfolio. We have been very careful since the end of our Travessia Program to renegotiate the standards of what we have always renegotiated looking forward. So, today we run at a level of 3.3%, but if you look at the renegotiated portfolio, it has nominally reduced. Our flexible portfolio, that BRL53 billion portfolio that we had, is now running at BRL27 billion. We amortized almost half of the portfolio, and today what we have is 62% guaranteed, that is a very strong coverage. Of course, the duration of this portfolio ends up increasing, because the vehicle and real estate credits remain, but the bottom line is the following.

We are not renegotiating the active portfolio nor increasing the renegotiation ratio and the bank's renegotiation portfolios. We are not renegotiating the flexible portfolio and taking it to the renegotiated portfolio, showing good amortization. What you are seeing here is a pure picture of what has actually happened with our delinquency indicators. Once again, in a challenging scenario, more inflation, more interest rates and GDP growing very little, the prospects are not so positive looking ahead. So, we've been really careful, we've been very proactive in reducing and adjusting concessions, we've been doing this since the second half of last year and we continue to intensify it. I would say crops are framed by appetite.

Naturally, there is always a crop deviation that we try to correct quickly although it takes a while. However, it is timely for what we have as models. We expect a gradual adjustment and gradual normalization throughout the year. I don't see big surprises, but yes, we expect a deterioration in our portfolio until the end of the year.

[Renato] Thank you Milton. Let's switch back to English. We have with us Geoffrey Elliot from Autonomous. Hi, Geoff, Thanks for attending the call. Can you hear us well?

[Geoffrey Elliot] I can hear you; I hope you can hear me as well.

[Renato] Indeed, yes. Hi.

[Geoffrey Elliot] So, another question on this topic of credit and specifically interest rates. So, the rates now are quite significantly higher than they were a year ago. I know you don't have a lot of floating rate loans on the consumer side, but how is the increase in interest rates fitting through credit quality and are there any threshold levels of Selic where you start to think that the customers really start to get squeezed?

[Milton] Yes. Thank you, Geoff. Thank you for your question. I think we have to separate what we called the wholesale ratios from the retail ratios. On the wholesale ratios, indeed, they have after credits raised on CDI+, in general. Okay? So, when you have an interest rate high or increased as we are seeing locally they have an impact.

So, the good thing is that when we see the whole portfolio of the wholesale we are working with much lower leverage companies than we used to see in the past. So, even when you have a huge devaluation of the effects or things like that we don't see the same impact that we used to see in the past. So, this is one side. The corporate ratios in general or the middle market corporate ratios as well, they do have this impact in their cost of financial debt whenever you have an interest rate high in process so this is from one hand.

In retail, it's more on the margins. So, you don't have ratios in general that have their liability being corrected by the interest rate, but in the marginal new production, yes you do because then we have dispatched the true of interest rate to the new credit and the new origination. So, my view is that when you look for real estate we have an important reduction in demand and in production as well, so, we do both.

First of all we see lower ratios are asking for less mortgage than they used to be, but on the other hand we do adjustments in our credit policies because we are afraid that you may have some adverse selection at these levels of interest rates. The same for auto loans and for products when you have to price with the new interest rate. So, lower demand, but also we work very actively to adjust our policies to guarantee that we won't have any adverse selection. But I would say that the most impact stays on the corporate ratios in general. They feel more pressure, but as we see a much lower level of leverage of those companies the marginal impact is of course much reduced when compared to the past, but it's still something that we've to keep an eye on.

[Renato] Thank you, Milton. The next question is from Domingos Falavina from J. P. Morgan.

[Domingos Falavina] Milton, I have two quick questions, actually. The first one is about the card. We can see that the portfolio balance grew by 40%. The issuance volume, if I'm not mistaken, was around 30%, and fee, actually fee revenue, grew by 16%. It seems that you have a little more control over the limit given in the portfolio, the rest ends up being a little due to usage, among other things.

My question is how you see this percentage of revolving evolving, from revolving plus installments with the total volume of the portfolio. Is it not a big risk to have this portfolio growing by 40%? And the second one, regarding insurance, the managerial view was BRL 770 million. Roughly speaking, it would be 15%, right, 10, 12% of the bank's result. It is an area that has been given a lot of focus, which has been generating a lot of profit. The question is how much you think this could represent from the bank's total profit within one or two years. Thanks.

[Milton] That’s great, Domingos. Well, you're sure to hear me in a little while, if you're not listening to me now. But yes, I'm listening to all your questions, and we've been getting feedback that in general, people are listening, but we're going to look into this issue. And obviously the entire call will be recorded, and you will be able to access it afterwards. I apologize to all of you for any technical issues that have arisen. Regarding the loan portfolio, I think there are two main points here, Domingos.

Firstly, credit cards, when we look at the 1st quarter of last year and see this growth of 40%, we have to look at the film, right, not just the photo. Because we came from a huge reduction in credit card consumption during the pandemic with all the lockdown effects, people at home, worried and spending much less. There is a very strong inflationary process coming from there, which naturally changes the price of goods and products consumed, which also pulls the cards portfolio. Just take a look at the revenues that have been growing significantly in the period.

We see a very solid growth in credit card billing in line with the market. Despite this growth, we haven't gained market share. We defend market share at times, but anyway. It goes to show that it really is a line that has been growing a lot in the market and it's not something exclusive.

We have a very large portfolio; we have 30% of the portfolio in the business of... 30% of market share in the card business. Therefore, it is a very relevant business, but very multifaceted from the point of view of distribution channels. From the account holder, through the financial ones, to the private channel. We have been making important adjustments to production, since last year we have reduced production by more than 40% and conquered new customers. Precisely because we understand that we are in a more adverse moment and this is a portfolio that we have to manage very carefully, because it brings a high degree of volatility.

Every time we have an adverse macroeconomic scenario, more inflation and delinquency, what we see is that, indeed, there is a reduction in family savings, especially in low-income groups. And we see greater consumption, that is, customers have started consuming again. So, the basis of comparison is not very fair when we look at last year's quarter. The portfolio adjustments were made, and we have been correcting all the new crops, every month, every day we discuss and make adjustments, but it is a portfolio that, yes, brings more volatility. There is a migration to a financed portfolio, but even if we look at the financed portfolio, it is at even lower levels than what we had a few years ago. So, the revolving portfolio, the one without interest, has been growing very solid, very strong, but the financed portfolio has reduced a lot over the last two years. Now we see a resumption, but to levels very similar to what we observed in the pre-pandemic.

So, I don't see a specific concern. Of course, everything is relative. In a more adverse scenario, we have been managing this portfolio very carefully. So yes, there is a comeback. And it also applies to personal credit when we look at some lines such as the overdraft, the installment plan, we see a recovery, but it is very important to remember that the interannual comparison bases are challenging because we need to look at a weaker quarter last year and a stronger quarter this year. My expectation is within another year we can stop making this comparison and start to have more comparable and normalized bases in terms of growth.

[Renato] Perfect, Milton. The next question is from Marcelo Telles from Credit Suisse. What's up, Marcelo? Good morning.

[Marcelo Telles] Good morning. Can you hear me?

[Milton] Yes, we can.

[Renato] Very well. Thank you, Marcelo.

[Marcelo Telles] Thank you, Milton and thank you, Renato. Thanks for the opportunity. I think most of my questions have already been answered, but I would like to talk a little bit about funding. I noticed that funding, mainly from real estate bills and mortgage bills, rose almost 40% quarter over quarter. And what we have heard is that Itaú has been very competitive with these products, and this is even making it a little difficult for independent investment platforms until they really... manage to capture.

Milton, could tell us a little bit about the bank's funding strategy in this regard? I mean, if you see the need for a defense strategy. Obviously, I believe the higher interest rate increases the competitiveness of the big banks and it certainly does for Itaú. So, I'd like to understand a little what's the strategy in this regard. And if this has had an impact, or is it expected to have an impact on the cost of funding or on your margin in a negative way going forward. Thank you very much.

[Milton] That's great. Marcelo, thanks for the question. Let me give you a little context that I think is important. We've been talking for a long time about an open platform, exemption and lack of... zero conflict of our investment advisors. We have been investing a lot in our commercial force of investment advisors to serve the investment market we were just talking about. This has given good results.

There are some metrics that we track. First, we have gained share in retail, which is very important, we have gained share in private and relevant shares in the bank's private banking. So, it shows that our platform, offer, and commercial team are super strong, with a lot of effort and dedication, and the results are being captured. Some metrics I personally think it's worth looking at, it's available, and we can get a good first idea, is our liquidity levels.

Obviously, the entire industry has been consuming the liquidity indicators, LCR, NSFR, it went from a moment of a lot of savings and few assets, to a moment now of more assets and consumption of savings. So, naturally, liquidity indicators have been falling, but we still operate with the most competitive, highest and most conservative liquidity indicators in the market. We have been operating with the highest LCR, relatively.

The second aspect is that our sales force and investment advisors are not remunerated for the product or for the spread generated in that product. They are paid exclusively by the AUM or AUC, Assets Under Management or Assets Under Custody that we have from our ratios. This is relatively different to the models that we see in the market, especially the platforms. At times of strong interest rate increases, as we have seen, we are able to migrate many customers who are in products that currently have lower yields, and which have more risks to products with lower risk and more profitability.

Although we lose results in terms of margin, management fees or performance fees, this is the best time for the ratio to migrate the portfolio. You can see in the figures that we released that our open platform reduced funding in the period, and the platform of our own products grew. It grows with a product that is better for the customer that includes a tax benefit and has a huge demand from customers. So, I think the central point here is how we deal with conflict. It's discourse and practice. Discourse is what we say, practice is what you see in the figures.

So, it's obvious that at a time like this, we're not selling products that don't make sense, that have very high spreads, and that at the end of the day maximize short-term results, as we see in the market, but that from the point of view of the customer are not a good deal. Just go back one, two years and see everything we have been offering to our ratios and how the portfolio that we offered in this period behaved over the portfolios offered by the market for these same ratios. This is what I call consistency, transparency, and coherence.

That has been our agenda. In our view, this has an unequivocal value in the long term. Loyalty, delivering value to the customer speaks to everything I've been saying here about centrality. So, I'll answer you like this. We are offering what generates value for the customer. There is a portfolio migration to fixed income products in a more adverse macro cycle, more risk, and with a lot of interest rates. It makes no sense to leave ratios, often, in fixed income products that have a management fee and a performance fee, but have the risk built into the portfolio. The pick-up is sometimes too small in terms of return to risk.

So, adjusted to our risk, we understand that is the best conversation to have with our customers. This is the advantage of being a full bank. Being able to offer our own products and third-party products, we do not see any kind of conflict. Every time we change the transfer price inside the bank, the first discussion is: "No matter the transfer, we will have the best conversation with our customers." Another indicator that I follow is individual deposits over individual portfolios. We have the highest rate on the market. We finance our entire individual loan portfolio 100% with individual deposits. Looking at the various instruments. When we look at the individual portfolio, deposit over total portfolio, we also have the best indicators in the market.

So, just see that we penetrate more investments, we gain market share, we bring the right conversation to the customer, deliver the correct product, and even so we have been maintaining levels of LCR and NSFR well above the regulatory ones.

Anyway, that's our conversation, and the investments are reaping value. We are not satisfied with what we have until today, we are growing, we are investing more, but we are happy with what we have already been capturing. But there's a lot to capture, and that's going to be our journey, with enormous intensity, and it's going to continue with the same intensity. You can look at the evolution of this over time and the results will come.

[Renato] Thank you very much, Milton. We have another question in line and then we have room for two more questions from Whatsapp. The last one here is from Tiago Binsfeld from Goldman Sachs. What's up, Tiago? Good morning.

[Tiago Binsfeld] What's up, Renato? Good morning, Milton. I just wanted to follow up on the participation in XP, to better understand what will happen between now and the end of the year. Is the intention just to stay below 10%, or could you sell a more relevant share? If I understand correctly, today you would not have a capital gain, so I would like to know how much this prevents you from selling a higher percentage of your stake. Thanks.

[Milton] That's great, Tiago. Thanks for the question. Well, I think it's a pretty simple answer. The BRL 8 billion acquisition was already contracted; you have known this since 2017. We simply fulfilled what we promised. XP multiples have changed a lot since then. The price-earnings ratio and virtually any scenario. Market values have changed a lot. Even more so compared to when we did the spin-off last year in May. Our vision is like that. It's two times.

Time number one is how we make the divestment to recover capital. A very small lot of shares needs to be sold for us to maximize the return. It's not the return on capital, it's maximizing the recovery of the capital ratio. They are two very different things.

The second time includes marketable securities, imagining that at some point we make the adjustment of the position and start carrying 9.99%, to simplify, of XP shares, over time, we will decide economically the best moment to exit, as if it were an equity position on the balance sheet, as we have for other investments. So, it will be an economic decision in which we will look at the best time to withdraw from the investment. If it is now, if it is in the medium term, if it is in the long term. So, we will look at market conditions, returns, prospects, we are in no hurry to make this sale. That's super important to be clear. We are discussing it.

I get questions if it's going to be a spin-off, it's not. It doesn't look like it's going to be a spin-off, although we haven't made a decision. I think when we made the spin-off of that other stake the logic was very different, a gigantic market value not captured in our multiples. Now I will say that we are at market prices. So, I don't see the spin-off through that logic. Alright? I think we'll see. If conditions change, we can always re-evaluate whether it's going to be a spin-off or a sale. But right now, our goal is to make the best economic decision. There is no rush to make the divestment.

With the exception, and it’s not a rush, to find the optimal moment of this 1.37%, which can be 1.5%, but it has to be at least 1.37% for us to maximize the recovery of the capital ratio of what we in fact will have now. That's the central point here.

[Renato] Thank you, Milton. Can we do two more? There are a lot of questions coming from Whatsapp. I am trying to mash some together.

[Milton] Great.

[Renato] One recurrent topic, and you mentioned this when you discussed capital, is dividends. We know that for individuals, this is an even more important topic. So how do you see dividend payout now in 2022?

[Milton] That’s great, Renato. Well, here is the answer. I see an increase in the amount of dividend paid growing. Growing because the results are growing. So, at the end of the day, I think I have two answers. The answer I like to give is how many reais per share we are going to distribute at the end of the day. As we have already been distributing 25% of the profit in the period, with more profit, more dividends. It's as simple as that, that's what we hope for.

The pay-out, which is the question that always comes up, "But what about the pay-out? It's 25%, do you intend to increase it to 30%, 40%? It was much higher last year." It depends a lot on the table we shared with you, which is a matrix that has profitability on the one hand and growth on the other, what we call RWA, Risk-Weighted Assets, which is how the demand for capital grows within the bank .

So, if I have a lot of profitability and little capital, and with a lot of capital in the bank, the distribution is greater. As the demand to use more capital increases, we look at the size of the profitability to find the optimal point. Based on the projections that we have; we will continue with a payout of 25% for a long time. But again, increasing the bank's results and, therefore, paying more dividends on shares. That's what we expect.

There are no changes in the dividend policy, we continue with the same table that was disclosed a long time ago. And as you can see, we are making investments, we have been investing in the franchise, growing the bank, and making the most of your capital that is allocated to the operation. There are very positive levels. Suffice it to say that in the Brazilian operation we are running with 21% of ROE, 20.4% in the consolidated financial statement.

So, as I said. My goal as CEO and our mantra here, board and bank, is to create pro-shareholder value. Whenever we are creating pro-shareholder value, adequate levels, well above our cost of capital, we continue to invest in the operation. If we understand that I have idle capital and that it will not be used in a period, we will eventually re-discuss the pay-out or the pay-out percentage. For now, there is no discussion about it.

[Renato] Perfect, Milton. Thank you. Because of the time, let’s just do one final question.

[Milton] Let's go.

[Renato] Several questions came up about how higher interest rate inflation impacts bank costs. We have been managing costs efficiently and you mentioned the lowest efficiency ratios that we have ever had in Brazil in the consolidated financial result. But looking ahead, what are the levers we have to achieve the ambitious goal of having a stable core cost result for the bank, nominally, over the next few years?

[Milton] That's great. Look, really, in an inflationary environment, as we have observed, it is not simple. Suffice it to say that a relevant part of our costs is the bank's own payroll. This one has been... Just look at the collective bargaining agreement, last year's increase was almost 11%. This is a contracted cost. We had three months of last year, and we have the whole year until September, when there is another discussion and then possible increases here in the quarter. We are going through a very strong inflationary peak, this is nothing new for any of you, and this inflation is materialized through the IPCA, IGPM. So, the inflationary pressure is very high.

That said, as we do not control the inflationary process, it is up to us to do our homework. And the homework isn't simply cutting the cost on brute force. Reduce, freeze, do this, do that. There have to be structural changes in the way we operate and work. And that has been our agenda. The efficiency program has more than 4 thousand initiatives. So, there's no silver bullet. Here, the efficiency agenda is something that is piloted by all of us, with a level of detail and gigantic granularity. And everything that adds up. Whether a BRL 100 savings or BRL 100 million, we say that it all adds up. There's no expense that we don't have regard very intently.

There's a lot of examples and the bank's culture, there's a lot of management discipline, and there's a lot of people looking and capturing a large part of the value of these investments that are being made in technology so that the bank becomes a more efficient bank, more digital to some extent. We made an adjustment here in the first quarter, the number of branches had a reduction. There is still overlap in some geographies. But, again, we will have the network size that our customers want. We are attentive to movement, flow, digitization, and efficiency. The bank's network plays a very important role, in every way, both in customer relationships, in proximity, in talking about the most sophisticated product. We made a mega transformation in retail as a whole.

So, we are not going to cut costs looking at the short term just to deliver better indicators. We are always looking to the future of the bank and investing in the operation. That's why it's important to look at the efficiency ratio and not the cost line in isolation. That's why I always say that having revenue is as important as adjusting costs. So, what you are seeing here of 39.4%, 39.6%, which is what we disclosed now, shows that it is a combination of a lot of revenue and super-controlled expenses, we managed to come in at zero core cost and incorporating all inflation. But that's a collective effort.

It's not a silver bullet, like I said. It's a little ant job that we've been doing for a few years now, and the results are being harvested. There will be more pressure ahead. It will be more challenging. We see that the guidance already has an expectation of cost growth year-over-year, but below inflation. We will continue to look for and deepen this agenda with the intensity it deserves.

[Renato] That's perfect, Milton. Thank you very much. Everyone, our Q&A session has come to an end.

[Closing]

[Renato] But, before saying goodbye, I would like to invite you to browse our 2021 Integrated Annual Report that was published last week and is already on our website. In addition to promoting greater transparency about our operations, the report expands the view of the context in which we operate. The transformations that are taking place in the market, and the innovations that emerge from this conjuncture. All of this so that we always keep ahead.

In this document, you will find our strategy, our business model, future trends, and a description of how we are creating value through careful management of our various capitals. You can have access, as always, through our IR website. Finally, and now it's really the end, I would like to share with you a novelty in the service to investors here at Itaú Unibanco.

It is now possible to access our IR team also by Whatsapp, at our traditional service number that you already know, which is +55 (11) 2794-3547. In this channel, you can find information you need and also clarify doubts with our IR team. It's another Itaú initiative to serve its stakeholders how, when and where they want to be served.

With that, I say goodbye. And Milton, thank you very much for being with us this quarter and I'll see you in the next quarter.

[Milton] Thanks. Thank you all. Thanks again for participating and for the questions. I apologize again for the technical issues at the beginning of our broadcast.

But the important thing is to make mistakes, correct and learn from them. And this has been our cultural transformation here at home. It's part of the process.

So, thank you all for your participation, and as I said at the beginning, results, and for us, the agenda has been one of consistency, and this is what we will seek in the quarters ahead. Until next time. See you soon.