Transcription– 4Q24 Results

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

Hello! Good morning, everyone. I'm delighted to welcome you to another quarterly earnings conference. As always, this event will be divided into two parts. First, Milton will go through the performance for the quarter and the year and he'll also disclose our expectations for 2025. Then we'll have the Q&A section, during which investors and analysts will be able to interact with us directly.

But before I hand over the floor to Milton, I'd like to provide some guidance to help you make the most of today's presentation. For those viewing this through our website, there are three audio options on the screen: you can choose to listen to the entire content in Portuguese, the entire content in English, or just the original audio. For the first two options, we will have simultaneous translation; to choose your preferred option, just click on the flag at the top of your screen.

You can also send questions via WhatsApp. To do this, just click on the button on your screen or simply send a message directly to the number +55 11 93959-1877. Today's presentation will be available for download on the website screen and, as always, on our Investor Relations website.

That's it from me for now. Now I will hand over the floor to Milton, who will begin the earnings presentation, and then I will come back to you at the end to moderate the Q&A session. Milton, the floor is all yours!

Milton Maluhy Filho (CEO)

Good morning! Welcome to another earnings presentation. Let's talk about our quarterly earnings, yearly earnings, dividends, and guidance. This will be quite a dense conference call, covering a lot of information. I'll try to be very objective to convey the main messages and then we'll have our Q&A, in which we can talk more broadly about the different topics of interest to all analysts who might ask us questions.

I'll start by summarizing what 2024 meant for us in a slightly more qualitative way by leaving aside most of the figures for the time being. And so, let me put touch on several pillars of our operation. First, in terms of both culture and ESG, this year we were recognized for our work both by Institutional Investor, who ranked us first in all categories, and in the Valor 1000 Yearbook as a Value Company. It's the first time in history that a bank has received the Value Company of the Year award. In addition to winning as a financial institution, we also won as a Value Company, an incredible mark of recognition by the entire Valor team. We are very honored by this, as well as by all the other awards that we list here.

As regards our ESG agenda, we made important progress in 2024. We made the commitment to go from 400 billion reais to reach up to 1 trillion reais in loan transactions and financing transactions in the capital market by granting loans to businesses in industries with positive impacts on the economy. Our role is to be the transition bank and we continue to believe that we can be this bank, while never losing focus on our pillars of Sustainable Finance, Diversity, and Climate Transition, which are very important to us.

In the last quarter, I talked a lot about what all our modernization, investment in technology, and the migration to the cloud means. This is a summary, as I've already given you some data. We achieved an important reduction of 99% in higher-impact incidents, we have more than 470 data scientists and more than 390 initiatives using generative artificial intelligence within the bank. And we also have in place more than 1,300 artificial intelligence models currently in use, tested, and growing within the organization.

I made a commitment to you that our goal was to migrate 15 million clients, as part of what we call One Itaú – a very important project for us. For the end of the year, we had a goal that changed over time. We managed to close 2024 with 5.3 million clients migrated and should complete the migration of the remaining clients throughout 2025.

We managed to do this without compromising quality, with a post-migration NPS of more than 80 points and a lot of account activation and PIX key registrations. This shows that we have started to move from focusing on the experience of our clients' journeys towards a phase of hyper-personalization and transactionality over time. So, I believe the bank has a lot of opportunities, and this is one of the most promising projects we have at the moment.

And we have managed to do all this while delivering quality solutions. We reached an Employee Net Promoter Score of 83 points. This is the level of energy, engagement, and internal strength that allows us to work, receive so much recognition, and above all evolve within the client centricity agenda, which is one of the key pillars of the entire management of our organization.

Our global NPS increased by 4 points, with 75% business areas reaching their all-time highs and 69% of our business segments and products posting an NPS above 70 points. Considering global NPS, we overcame all the challenges and met all the goals we had set for ourselves, and now we will set new challenges. It is very important, when we look at the relative NPS, to see how much we managed to narrow the gap in a very significant way for those items where we still had some kind of opportunity, whether regarding the app or whatever. And today we are able to compete in several segments with those segments' leaders and narrow the gaps even further from an experience standpoint, while on the other hand, in several other business segments, we are opening up major gaps. This is the bank's continuous agenda.

Now let's talk about earnings. Managerial recurring results for the quarter totaled 10.9 billion reais, reminding that in the last quarter it totaled 10.7 billion reais and we had that extraordinary impact, an important reversal of 500 million reais before taxes. Therefore, we managed to more than offset that effect and still grew our earnings by 2% for the quarter. For the year, we closed at 41.4 billion reais, very strong growth of 18.2% in light of the earnings and profitability levels at which the bank has been operating. This result leads us to a consolidated ROE of 22.1% and 23.4% in Brazil, and if we simulate adjusting by the minimum capital ratio approved by the Board of Directors, we would be running at 24.4% and 26.2% in Brazil. This shows how we have been able to perform in a very relevant way. We remind you that our capital ratio approved by the Board of Directors considers a minimum capital of 11.5%, and we cannot operate below this level. So, it is very important to adjust with regard to the average capital ratio of the industry.

The loan portfolio grew with great quality and recorded major growth in this quarter– I'll give more details in a moment. We've already reached 1,359 billion reais and we grew 15.5% over

December 2023. This is very sound growth, although a good chunk of our growth is explained by FX rate effects, which I'll soon give you more details about.

All this growth has been achieved with increasingly better credit quality. We managed to improve our delinquency levels yet another quarter by reducing long-term NPL by 0.2 percentage point compared to last quarter and 0.5 percentage point compared to December 2023.

We have also seen very positive growth in the financial margin with clients, which has grown 3.7% in the quarter and 8.3% year over year, reaching 108 billion reais in 2024 – very sound growth.

Commission, fees and results from insurance totaled 14.3 billion reais, important growth of 3.9% compared to the last quarter, and 7.7% year over year. So, I believe that the big picture shows a very sound quarter, very strong in terms of earnings, profitability, credit quality, and growth. In addition, the figures year over year are also very strong, with growth of almost 20% in bottom-line earnings.

Going into more detail for credit portfolio, the individual loans segment grew 6.9% year over year. We remind you that this year we made an important adjustment to the portfolio. As I have mentioned in the past, we had been de-risking the individual loans portfolio since the beginning of the 2024 and this process has now been completed. We grew 3.7% in the quarter, pushed by the growth in credit card loans. Naturally, this quarter has the highest card revenues seasonally. In addition, we also posted growth in vehicle and mortgage loans, which are products that tend to have a slightly different credit performance from unsecured products in general.

The SME portfolio grew 8.1% in the quarter. However, it's worth highlighting that this quarter our origination of Governmental programs, as FGI and Pronampe, grew almost 300% compared to the last quarter, as we originated more than 12 billion reais. When we make this adjustment to the SME portfolio, we see that of this quarterly growth delta, approximately 10 billion reais consists of these Governmental programs that generate a pretty adequate NIM for to our portfolio, especially by looking at the cycle and the challenges that lie ahead. We also have part of this growth explained by FX rate effects, especially with regard to the middle-market portfolio, which contains a more material foreign currency component. The Large Corporates segment is no different. We posted significant growth of 6.8% quarter over quarter and 21% year over year, and this growth is also explained by FX rate effects.

In the unsecured products portfolio, we grew 11% this quarter pushed by credit transactions in the Personnalité and Uniclass segments, which are mid- and higher-income segments that usually tend to perform better during more challenging cycles. Growth year over year was 17.5%.

Mortgage loan origination totaled 10.8 billion reais and the segment's loan to value was 60%. So, this is a collateralized, higher-quality portfolio.

I've already highlighted above the impact of government programs, and we also have the FX rate effects. Disregarding this, our growth in the SMEs segment would be 4.9% in the quarter. In large corporates, we are talking about growth of 4.3%, and in Latin America, growth was 3.3%. This shows the impact of FX rate effects both in the quarter and year over year.

That said, I can now move to render account of the 2024 Guidance. Our guidance ranged from 9.5% to 12.5% and we are delivering growth of 15.5%. And if it weren't for the FX rate effects, our growth would be 10.2%, within the targeted range. Because the FX rate effects were very strong, in other words, the devaluation of the Real against several currencies ended up generating this effect on the portfolio as a whole, and that is why we were above our Guidance upper range.

At the Financial Margin with Clients, we isolated the impact of working capital, which is these 3.1 billion reais, which had a slightly positive effect, while the bank's equity kept growing. When we look at the core margin, in Product Mix, by having an individual loans portfolio of better guaranteed products, with credit cards this quarter tending to grow more in the non-interest portfolio and then moving on to the interest portfolio and with the strong growth in government programs, this ends up resulting in a slight negative effect, but with a small impact. We posted growth in Average Volume, with very significant volumes in the quarter, and in Spreads and Liabilities Margin, the biggest effect is on the liabilities margin and not on spreads, which also helps to explain a good portion of the growth in NIM.

In Latin America and Others, we see some effects from structured operations allocated to the wholesale business and that were a little weaker this quarter due to different seasonality impacts on this line as a result of our portfolio's dynamics.

As regards the risk-adjusted annualized margin, which is the margin that we track, as I always say, we cannot just look at the annualized margin and forget that we have a credit cost to offset. When we look at the series, we see a gradual evolution over the quarters, and last quarter we had a one-off impact as a result of the mentioned extraordinary reversal that we made and which generated this impact on the indicator. In the fourth quarter, the indicator was 5.9%, so we have a margin that has been slightly expanding over the quarters.

In Brazil we have similar movement, from 6.2% to 6.1%. By adjusting for the effect of 500 million reais from the reversal of Provision for Loan Losses, last quarter, the ratio would be 6.3% and this quarter we also closed at 6.3%. Compared to the Guidance, we closed 2024 at 8.3% of growth, and the given range, already adjusted for Argentina, was from 5.5% to 8.5%. Therefore, we grew close to the top of the guidance upper range, which is good news for the financial margin with clients.

In the Financial Margin with the Market, we had a good quarter in terms of earnings generated in Brazil. The market NII reached 1 billion reais after removing the hedging effect from the capital ratio, and the earnings from Latin America were in line with the earnings posted in previous quarters. In annual terms, in 2023 we posted earnings of 3.3 billion reais and in 2024 this totaled 4.4 billion reais, so we recorded important growth year over year. Compared to our guidance, the range was between 3 billion reais and 5 billion reais and we closed at 4.4 billion reais, therefore closer to the guidance upper range and with another strong year of market NII performance.

Focusing now on commissions, fees and result from insurance operations, I'd like to highlight some effects. In credit cards, at the issuer level, growth was 5.7% in the quarter, and at the asset management level, growth was 6.8%, while year on year, growth was 12%, therefore quite material. In addition, in advisory services, revenue remains at 1.1 billion reais, while it grew 38%

year over year. These are very strong results, especially in the capital market, which I will highlight in a moment, since this is well reflected in all rankings.

And when we look at the result of insurance operations, pension plan and premium bonds, growth was 14% year over year, which shows that all our insurance earnings continue to grow consistently.

With regards to the year's highlights, this year Itaú Asset was the asset manager that raised the most funds and generated the most performance fees in a challenging year, as we managed to have the best performance in the market.

I never say much about our individuals broker, but this is a journey that started four years ago and we are focusing on it a great deal. As a result, we managed to increase the earnings of the individuals broker six-fold, which is now much more in alignment with its value proposition, investments, products, and UX. These are major results, and even though we did not break down the absolute amounts, they are already a quite material portion our P&L.

And as I mentioned earlier, we were once again in first place in fixed income, mergers and acquisitions, and equities when it comes to investment banking. As you can see, our market share is quite significant, above our credit fair share, with a 26.5% market share in fixed income, 30% in mergers and acquisitions, and 14% in equities. A very sound performance from our investment bank. ECM had a weaker year, but, on the other hand, 2024 was an extraordinary year for fixed income.

Compared to our guidance, we grew 7.7% over guidance ranging from 5.5% to 8.5%, also above the midpoint, which also shows the quality of our guidance.

In terms of credit quality, from any standpoint we only have good news. Looking at NPL 15 to 90 days, we are consistently reducing the indicators both in Brazil and in Latin America, and in total short-term NPLs. And our performance as measured by loan indicators, which is not a denominator effect, was already very sound. In this case, we suffered a double impact, both from the numerator and the denominator. Total NPL over 90 days decreased from 2.6% to 2.4%, while in Brazil NPL over 90 days decreased from 2.9% to 2.6%, so very sound performance.

We can also view this very sound performance in the breakdown of NPL 15 to 90 days. The short-term NPL ratio for individuals decreased from 3.0% to 2.8% and the ratio for SMEs decreased from 1.5% to 1.4%. Both long-term NPLs of individuals and SMEs improved by 20 basis points and 50 basis points respectively, which is a major development. Of these 50 basis points, 20 basis points are explained by the growth of the credit portfolio, while the other 30 basis points are explained by the actual improvement in loan performance.

In terms of credit quality and cost of credit, last quarter we separated this view. We posted 8.7 billion reais in cost of credit in the third quarter, which disregards the extraordinary reversal effect that we had. Officially, the amount was 8.2 billion reais in the third quarter. And the adjusted cost of credit ratio would have been 2.8% in the last quarter and went to 2.6% in the fourth quarter. These are the most comparable values.

As a result, in this quarter we posted cost of credit of 8.6 billion reais, which is the best indicator in the series when compared to previous quarters.

The cost of credit year over year decreased from 36.9 billion reais in 2023 to 34.5 billion reais in 2024. We have posted strong portfolio growth and a nominal drop in the cost of credit for 2024.

The figures for the renegotiated portfolio show a major fact: this is falling nominally and falling percentage wise, while it is the lowest ratio in the series. Before the pandemic, we operated at the ratio of 3.9%, and we closed the year at 2.5%.

And we also have a very sound coverage ratio. The decrease in NPL indicators makes our coverage ratio slightly higher, which again shows a very well-collateralized portfolio and with very well-provisioned and sound indicators.

By comparing the 2024 guidance projections with the actual figures posted, we reached 34.5 billion reais, while our guidance ranged from 33.5 billion to 36.5 billion reais. In other words, slightly below the midpoint. This evidences a very strong year from a credit risk management standpoint.

With regards to non-interest expenses, we posted growth of 6.8% year over year. When we look at our efficiency ratio, we ended 2024 with an efficiency ratio of 37.7% in Brazil and a consolidated efficiency ratio of 39.5%. This shows that we are also managing to grow the core cost with discipline and below inflation, which was the benchmark that we gave you in the past. As a result, we grew 4.4% in core costs compared to an IPCA of 4.8%. And all this without giving up making important investments in business and technology, while focusing on and ensuring earnings generation and always investing in the franchise and our business.

Compared to our guidance, which ranged from 5% to 8%, we closed the year at 8%, in the upper range and within the range that was released to you.

On the Capital side, this quarter we were able to finance major growth. Given what we generated in terms of earnings already adjusted by the dividends that we had provisioned, we were able to fully finance the portfolio growth, which was important in the quarter, and we were also able to finance the adjustments that were made to equity caused by volatility, rates, and securities. As a result, we closed the quarter with the same level of capital as the previous quarter, at 13.7%. Here you are seeing 1.3%, but I would like to remind you that the maximum percentage we can use from this additional Tier 1 is 1.5% and we closed the year with 1.3%. However, with the Tier I capital level of 15% at which we're operating, we believe that it is not necessary to operate at 1.5%, as we have the capacity to operate at slightly below this percentage by always relying on our financial management, while keeping an eye on our capital ratio and looking for the best opportunities to manage our additional Tier 1. For this reason, in this quarter, it dropped slightly.

As regards the extraordinary dividends, which are actually additional dividends, last year we made an additional distribution of dividends to shareholders, and this year we are making another announcement of additional distribution of dividends. This is how we do things here at the bank. Every year we assess our ability to generate capital throughout the year, we make expected growth, business performance, consumption, and regulatory impacts projections and, based on these projections, we distribute payouts to shareholders above a certain level. And these announcements have been made somewhat regularly, since we did this last year and we are doing it again this year, and this entire assessment will be done again at the end of 2025.

The news we are announcing regarding dividends is very good. We will make an additional distribution of 18 billion reais, which will be done in two different ways. 15 billion reais will be distributed as both dividends and interest on capital, and we will distribute 3 billion reais related to share buybacks that will be made throughout the year and these shares, once bought back, will be canceled.

This was the best way and the best combination we found to distribute dividends to shareholders this year. We had already disclosed, declared, and paid 5.7 billion reais, and we also have 5 billion reais already declared that will be paid in the future. When we add up all these effects, we have a total distribution of 28.7 billion reais, with 15 billion reais in dividends and interest on capital and 3 billion reais in buybacks regarding shares that will be bought back and later canceled throughout the year.

This means a distribution of around 70% of our profit, including this new distribution that I've just mentioned. Last year we made an additional distribution of 11 billion reais, which represented a payout of approximately 60%. We have increased our distributions, not only as a percentage but also nominally as a result of higher earnings.

With that, our Common Equity Tier I ratio goes from 13.7%, as we saw earlier, to 12.3%, adjusted on a pro-forma basis for this distribution, as if the share buyback had been done on the first day and the shares had been canceled also on the first day of the period, so that you can get a sense of the results of these events.

As a consequence, our adjusted ROE on a pro-forma basis in the consolidated figures would be 23.5% and 25% in Brazil due to these events and these adjustments made in the fourth quarter of 2024.

In addition, we are announcing a bonus shares of 10%. This way, we trigger a capitalization, that is, an increase in the bank's capital stock by 33.3 billion reais, which will be transferred from the reserves to capital stock. Simply put, for every ten shares held by each investor, they will earn an additional share of the same class at the attributed cost of 34 reais per share.

As for the 0.015 reais dividend that we pay monthly per share, with this bonus, each shareholder will have an increase of 10% in the amount received monthly. These are the three pieces of news we are announcing: distribution, buyback, and bonus shares.

These were all the points regarding the release of the 2024 results. Now let's talk about 2025 and our outlook and guidance.

Regarding the GDP, we expect lower growth this year due to the monetary tightening cycle, reaching 2.2% growth by the end of 2025. We expect a year-end Selic of 15.75% in 2025, which is our best outlook. We expect inflation of 5.8%, resulting in greater inflationary pressure, which naturally justifies this effect on monetary policy. We estimate an unemployment rate going from 6.5% to 6.8%. And an exchange rate in the range of 5.90 reais, which, despite the volatility, is necessary to assess the sensitivity of our guidance.

Accordingly, the guidance I submit to you now takes into account these macroeconomic indicators for sensitivity analysis purposes. We might make some adjustments or updates to our guidance if needed as a result of any changes over time.

We remind you that this guidance has already been adjusted by the criterion of Resolution 4,966.

As regards the loan portfolio, we expect growth ranging from 4.5% to 8.5%, and this is what we are currently foreseeing considering all the challenges expected for 2025.

In terms of the Financial Margin with Clients, we expect growth substantially higher than portfolio growth, ranging from 7.5% to 11.5%. As for the Financial Margin with the Market, we expect something between 1 billion reais and 3 billion reais, due to volatility and the monetary cycle. We estimate a cost of credit nominally ranging from 34.5 billion reais to 38.5 billion reais. An important point that I would like to mention is that Resolution 4,966 has virtually no impact on these lines, but if we were to follow the previous criterion, commissions, fees and results from insurance operations would grow from 4.9% to 7.9%, that is, an increase of 1 percentage point. But as we have to defer some revenues due to Resolution 4,966, this is the actual impact of 1 percentage point on growth.

In terms of non-interest expenses, we expect growth ranging from 5.5% to 8.5%.

As for the effective tax rate, we expect it to range from 27% to 29%.

These are our best prospects. This has surely given rise to many questions, and next I will join Renato to reply to all of them in our traditional Q&A session. I would like to take this opportunity to tell you that we are very happy with the quality of our earnings and our performance throughout 2024.

All business lines have been performing at their best and we see a bank that is perfectly integrated from a culture, management, and workplace environment standpoint, in addition to being very open to innovation and change. And as you have seen on the first slide, all the investment we have been making for years in technology, business model development, and client experience is bringing major recognition, both in terms of client satisfaction and the satisfaction of our employees.

All in all, this is a set of results which, in our view, are very solid and consistent. I would like to thank you once again for your time, support, and feedback. I will now join Renato so we can start the Q&A session. Thank you very much and see you in a moment.

Q&A

[Renato Lulia]

And with that we kick 0ff our question and answer session for today's call. Remember that this session will be bilingual, as usual. Milton will answer the questions in the language they are asked, either Portuguese or English.

For those who need some kind of support in translation, you can choose, on your screen, to have all content in either Portuguese or English. As usual, you can also send your questions via WhatsApp. Our WhatsApp number is (11) 93959-1877.

If we are unable to answer any questions here live with Milton, we'll do it later through our IR team. Let's start, shall we? Come on! We now have the first question on the screen now, which comes from Daniel Vaz from Safra. Hello, Daniel. How are you? Good morning. Well, thank you. Welcome to our call here.

[Daniel Vaz]

All right? Good morning, Renato. Good morning, Milton! Congratulations on the earnings.

It's awesome to see the bank delivering 25% of ROE when adjusted to distribution here in Brazil, as you have shown. I'd like to address your guidance on expenses.

You have been consistently delivering improved efficiency ratios since 2020. The guidance today implies that at midpoint it worsens by 20 basis points, which in practice means stability. Could you please elaborate a bit more on what it means for non-interest expenses to grow above revenue?

Whether this is due to a greater need for investment in new technologies or any core cost under pressure of higher inflation? You have already exceeded your 5.8 projection. Is it about any specific expense or whether the efficiency program has reached a more advanced stage? We would appreciate if you could detail this part of expenses for us. Thank you.

[Milton Maluhy]

Thank you, Daniel. Thank you for the question. It is a pleasure to see you here again. When it comes to expenses, there are some very important messages. Looking at the year-on-year evolution of this result we have just delivered, there are three major effects on this expense.

One of them is profit sharing, which had an increase. This explains 30% of the delta. This is a significant number to keep in mind, because the bank's results grow not only in terms of value creation, but also in the bottom line. And this naturally affects all of the bank's pools. This is one first effect.

A second effect is related to our provision for labor claims. We increased this provision a bit in one year and it also generated this effect on the year-on-year basis. I think the core message here, and this is an exercise you can try, is to look at the balance of this provision we have against the costs incurred in the year.

Ours is an expected loss model also for labor expenses, which brings about a certain anticipation of what may come next, but with a very significant level of coverage.

We have at least three years' worth of coverage for these provisions, which shows a very strong management discipline. The third and perhaps the most important one is the entire investment we have been making over the years. We have been making massive delta investments since 2021.

We have been in an upward investment move, and part of the amounts we could credit to assets is being debited to expenses incurred in the year itself, another part is credited to assets and this part depreciates over time all intangible assets we have in the bank's balance sheet.

It is very interesting thing to see that we have been increasing the investment level and we have already stabilized it for a few years. There is still a depreciation curve that will find a plateau in the next two years. Therefore, the delta depreciation tends to decrease year after year. So, in the next two, three years, everything will be stabilized and we will have an ongoing investment level.

This demonstrates our ability to deliver this profitability level and results, as well as grow topline above expenses, due to this level of investments we have been making. This is this investment level that will allow us to make much stronger leaps in efficiency rates as we look ahead. Therefore, having our platform fully digitalized is having all bank's investments fully modernized, with technological platforms and cloud migration.

Once you go through this investment cycle, you enter a value capture cycle. Whether because you are going to shut down the mainframe, deactivate a series of costs you have today, you start to have a lower operating cost, whether because you have a value proposition and a much more digital business model, which allows you to make significant leaps in terms of bank's efficiency. We are in this investment cycle that is not complete yet.

We have already passed the halfway point and, with what lies ahead, we will enter a very important cycle of value capture. So, please don't project the efficiency ratio based on what you see here.

It is natural that part of it ends up being transferred to price, to competition, that's why you are more efficient, so you can absorb a little more risk, if applicable, especially in retail operations. However, we are still in this investment cycle and there's all the banking inflation, which is higher than current inflation, and also the issue of transactionality, of important volumes, that is, our volume is growing and what we see is that our unit cost continues to fall.

What has caused a big increase here in the transactional business is the volume growth, which shows that we have much greater operational leverage today, with room to continue evolving. I am very positive about our future prospects when we look ahead.

[Renato Lulia]

Thanks, Milton. Let's move to the second question. We have here with us on the screen Bernardo Guttmann from XP. Hello, Bernardo. Thank you. Welcome to the call.

[Bernardo Guttmann]

Good morning, Renato and Milton. Thank you for the opportunity to ask questions and congratulations on the earnings for the year.

My question is about the guidance on increase in net interest income (NII), considering the reduction of the portfolio risk and the prospect of a slightly smaller portfolio expansion. When you think about growth from now on, you should take into account some of the current market dynamics, such as new banks well positioned in the mass segment, high income with a bit more competition. Which segments can bring the best opportunities for the bank to expand its spreads? Where do you see opportunities and where might there be pressure from competitors?

[Milton Maluhy]

Right. Well, Bernardo, thanks for your first remarks. Good to see you here at the call. I will first make a general statement on the guidance and the figures you see.

First, obviously, when we prepare and project scenarios and the bank's budgeting process, there is always a time gap between the budgeting and the day of disclosure. We try to make the most significant adjustments, any possible corrections, but this time gap exists by design. The second aspect is that the guidance concerns ranges, rather than midpoints.

So, these are the best ranges and we are fully aware of the guidance that is being set. The ranges are there to capture any deviations from what we are thinking based on the best information available. The third key aspect, in my opinion, is that the bank has never been so well prepared to face any scenario that may come its way.

Whether it is a more positive or challenging scenario, and I state that not only based on cost of credit indicators, but exclusively based on default indicators. When we look at the whole picture, we have our business positioning, capacity to grow, platform modernization, principality, improved journeys, evolution of NPS and credit indicators, and a very robust balance sheet with very adequate provisions for the cycle. We also have the capital ratio, after adjustments to additional dividends, which we will be addressing later. So, when we look the whole picture, we see that the bank is well positioned for the challenges ahead. We made this investment in platform modernization, not only in the conventional business platforms, but also across the entire credit and collection platforms.

These two are essential projects we have been able to complete. Our reaction speed to any scenario that comes our way has never been so fast. These are not decisions you make with delays of 30 or 60 days.

These are decisions you make every day. Today we have a timely management control of the bank, monitoring of vintages, production, business and of the daily scenario. That is where we do the fine tuning, small adjustments, to be able to evolve as the scenario becomes favorable.

We undoubtedly look at macro indicators. We also look at micro indicators, as it must be. We look at profiles of clients we want to grow, and carry out this portfolio management.

The "through-the-cycle" concept is very important. And I will start to answer your question. We have already implemented this portfolio management in the wholesale business for many years, since 2015 or 2016. After the crisis, we implemented it and it has proven to be very successful. We have been carrying out this project for the retail business segment for the last two years as well.

Accordingly, we can have a thermometer and the reaction speed is instantaneous. In the first quarter of last year, at the earnings review, the first question asked was: "but, are you going to be below the guidance with these projections?". My answer was that we were very comfortable, and ended up exceeding the guidance. We made an adjustment in the last quarter, and the main effect, or a good part of it, was the exchange rate variation, although the portfolios ended up growing more.

Therefore, if the opportunity exists and we have to make a decision today about a possible increase in growth, we will do so and the guidance is the best information we have today. If we have to make any adjustments to the guidance looking ahead at the future, we will do so as well, as we have always done. We have no need to say that we must meet the guidance and there is an opportunity to either grow or generate more results. The delta portfolio and margin are very important because here we have a viewpoint of the end portfolio, which has a very distributed mix across the various businesses and in a year where the portfolios grew very significantly, by 15%.

It is natural that when you have a base effect, your expectation of growth in a monetary squeeze cycle, where there is more uncertainty about inflation and interest rates, you tend to be, I wouldn't say more conservative, but you tend to allocate capital in the best and most efficient way, taking into account the scenario. The scenario is the scenario itself. We cannot ignore what lies ahead, whether it is a positive or negative scenario.

Therefore, we often end up discussing the indicators as if the scenario were not a relevant point. The scenario is very relevant to the decisions we make. The second aspect is that the average portfolio, which effectively generates margin, will grow at a faster rate than the portfolio indicates.

It will mostly depend on the capital markets, exchange rate variations, in short, on our ability to grow in businesses where opportunities may arise. It also depends on interest rates. We are talking about a terminal interest rate of 15.75%, which is the projection of the macro area with the best information and best projection. The exchange rate at this level, already lower than what we have observed, could already provide room for an even lower terminal rate, depending on how inflation behaves.

This may or may not have more impact and effect, either on margin growth, as there are several products that are “capped” (or limited) by regulatory fees, or on our ability to grow. I believe this is the core message. We see room for growth in all businesses, but always with the strategy of focusing on target clients, who are resilient throughout the cycle.

The middle- and high-income, which was also part of your question, are the segments we have been able to grow the most. We gain share and we continue to grow, as this is a segment that has always been available. The middle and high income is not a new segment.

Ultimately, competition has always existed for this segment. Of course, when you see a much more stable performance of the bank during cycles, you start to see the strengths of our balance sheet, whether in the middle and high income of the retail business, or our entire wholesale business operation, Itaú BBA, Asset Management, treasury, which together make us work with a profitability level much higher than the industry average, not adjusted by the industry average capital ratio. In other words, with the capital ratio even higher. We see an opportunity to continue significantly growing in the middle- and high income segment.

The last point concerns our platform and super app One Itaú, to where we have already migrated 5 million and 300,000 clients, just to provide a more updated number. As we speak here, we have already migrated six million clients, that is, just at the beginning of the year, and we will complete the 15 million target. We have all the capacity to grow in this audience, which is not low income, but rather a heterogeneous audience, comprising middle, high and low-income clients.

We have absolutely nothing implicit in the numbers you see here. Because our main initial challenge was to migrate clients and take care of this transition. Once the migration and transition are performed in the best possible way, with an NPS above 80, all the opportunities for cross-selling arise in all the products that we can finally serve and offer in the journey and context within the client experience.

None of this is contained, neither margin nor portfolio growth, as we want to first test and see the potential results before making any estimates. We have more than doubled the speed than the initial expectation and this is a huge opportunity to grow in all segments, whether low, middle or high income segments. It is undoubtedly a watershed moment for the bank's retail business operation. I gave you a long answer, but it was important to highlight a few points about guidance as well.

[Renato Lulia]

Thank you, Milton, for the complete answer. There are so many questions about guidance and you were able to tick off the points. Now let's move back to English, as we have Tito Labarta from Goldman Sachs with us. Hello, Tito. Great to see you, and thank you for joining the call.

[Tito Labarta]

Hello, good morning Renato and Milton. Thanks for the call and for the opportunity to see you. My question concerns capital. The Tier 1 core is still at 13.7% and you need to pay dividends and buy back shares. I think the message was clearly received by the market and it was as expected.

Given its high level of capital, with ROE above 20%, guidance on long-term growth is in the mid-point, with single digits. It seems they will still generate capital. Can you please tell us what is the proper level of capital you would like to be at? Is there room to redistribute more capital in the context of the payout level we will see in 2025? Thanks.

[Milton Maluhy]

Thank you Tito, it's a pleasure to see you again, thank you for joining our call. That is a great question, as we already mentioned that this is an additional rather than an extraordinary dividend. There is a reason behind this terminology.

Basically, when we recovered the bank's capital ratio from the pandemic levels, we reached a massive level of capital generation, growth and distribution of dividends and buybacks. Our view is that if everything remains constant and we are able to deliver the expected profitability and, of course, the assets balanced with the profit depend on the growth capacity, we have always the main goal, that is: grow the business and grow the bank.

If we are unable to grow further for any business reasons, we will then distribute the surplus capital. In this first quarter of 2025, we are paying for two relevant increases in the capital ratio. The first one is the operational risk, which increased in the first quarter, and the second is the credit risk for the wholesale business portfolio in some specific operations. Both will be addressed by the surplus we will have above 12.3%.

It is clear that, when the dividend is paid, we will have concurrently capital generation. Therefore, 12% is the target we have to work in the bank in terms of capital ratio and 50 basis points above the minimum dividend set by the Bank's Board of Directors. We strive to operate with a buffer of 50 basis points for several reasons, including uncertainty, and we must agree there are more uncertainties today than last year.

This is the first point. The capacity to grow. Our priority will be to grow, if we decide to do it and if an opportunity arises. We have decided to work on with other business an organic or non-organic basis. Therefore, until the end of the year, if everything remains balanced, *ceteris paribus*, we will be having the same discussions.

We will calculate the surplus and distribute it to our stockholders, either as dividends and/or stock buyback. This will be the new normal. This is something additional, rather than extraordinary. This is how we are going to work the market in all fiscal years. You will be informed if something changes. I believe we have a solid record of capital growth, business financing and distribution of higher profits as dividends to our investors. This is the path to the future.

[Renato Lulia]

Thank you, Milton and Tito. Moving back to Portuguese now, our next question comes from Thiago Batista from UBS. Thiago, thank you and welcome.

[Thiago Batista]

Thank you, everyone. Can you hear me? All right. Firstly, congratulations on the earnings.

Once again, these are very good earnings. The bank is navigating this cycle very smoothly. I will follow up on Tito's question and my question concerns the guidance again. Sorry for insisting in this point.

I know you have already answered once or twice about this line. I received many questions on two guidance: guidance on margin with clients and on margin with the market. The main point here is why the margin with clients is growing so much above the portfolio growth? My other question about the guidance is why the margin with the market is so much below the level you had been running or indicating for 2024? These are the two questions on the guidance.

And if I skip the follow up, doing a midpoint job for 25, we can imagine that the payout is about 70. I think the math is more or less simple. Is this what we should expect? Of course you have access to capital that remained, 12.3%, but is this the size of payout we should expect considering the midpoint of your guidance?

[Milton Maluhy]

How are you, Thiago? Firstly, it is great to see you here. And congratulations for the new role you have there. I will highlight some points.

I think you addressed two significant points concerning growth. The whole margin projection we make has a double effect here. The first is the mix, that is, which products we will grow and how we will do it.

This is the first effect. We must remember that the financial margin with clients also have all effects of the working capital, that is, how we invest and bring the whole effect of working capital to the margin with clients. When we look at the average balance of the portfolios and the mix we have been specially growing, there is also the other side of liabilities that grow significantly, and we can see the margin with clients growing above the portfolio balance.

Remember that in the margin with clients we do not look exclusively at the credit. Credit is clearly a significant component, but there are other effects in the margin with clients. All these effects, in short, our capacity to grow on the liabilities side, to make a profit, all the working capital effect, plus all the portfolio effect and the average portfolio balance, are what gives us plenty of security in this margin growth, which is why it is above the portfolio effect and the portfolio, and remember that this is the portfolio end.

This is the first answer. Let me state a significant point on the margin with the market, as this will be a recurring question from what I have seen in the reports and heard from both the sell and buy sides. I wanted to make an important statement here.

The truth is that this is the most difficult line to project. When we look at VAR, past results, capacity to create value, we know that the margin with the market is one line where you have no inertial result in a good portion of this margin. Another issue is that it is highly dependent on your liability management, the balance sheet management, how you address your hedges over the year. We have a very clearer vision on the unrealized result of the banking book positions.

What we effectively do not have is the capacity to project the trading book result. It is true that we have had very strong results and we hope to continue to do so in the trading book again, despite its greater volatility and increased uncertainties. In the banking book, with the rise in interest rate, you have a natural challenge to generate results over the year.
There is also a double effect within the margin with the market. An effect we take into account is the capital ratio hedge. When we made the decision to hedge the ratio, it had an opportunity cost, which is in the margin with the market and with the interest rate differential between Brazil and the U.S., with the interest rates here rising and abroad remaining stable. In relation to other countries where we have operations, we see a higher interest rate differential delta, which implies a slightly higher hedge cost for 2025. I wanted to give you some data that I believe is very significant.

We carried out a back test and made this decision because one portion of our equity was in foreign currency. One portion is in Brazilian reais and the other is in foreign currency. In this portion in foreign currency you have the cost of the ratio hedge, which is recorded in profit or loss, but the final result of currencies remains in equity.

The back test performed was aimed to check the behavior of the cost of hedge plus the change in equity over the years. The effect was zero. This means that we were able to hedge the capital ratio and, economically, less the cost of opportunity of the ratio index, the result was zero.

We can say that it was like an insurance policy that had no cost at the end of the cycle. This evidences that our economic management capacity is excellent. We naturally hedge against volatility in the ratio, which gives you more security, whether for growth or for higher dividends, as your sensitivity to exchange rates has decreased, either due to the effect of the ratio hedge or the end of the overhead expenses for a long time, which has brought a certain volatility to the ratio due to the tax credits generated.

This is basically the answer. If you ask me, I think our ability to address the margin with the market can be better. It will mostly depend on the scenario, which is an ongoing discussion here. We understand that it would be more reasonable to be a bit more cautious with this line when making projections, due to uncertainties.

We believe that, again, as in every year, we will be able to work hard to perform to achieve what the range can absorb, despite the costs involved. If we ultimately understand that, over the next quarters, we are able to perform better despite the uncertainties, and due to all this interest rate effect on the banking books, we will review the guidance if necessary. The guidance is not something still.

We will make any adjustments if required. The level of uncertainty is very high in this line. Concerning payout, we do not want to guide the market with this expectation of payout. I do not know if this answer will help.

That's because once you create this expectation, if anything changes you can frustrate it, as we know how the market reacts. Happiness equals reality less expectation. Therefore, we know how the market reacts.

In practice, I think that your model, calculating how much earnings we will generate, how much we will grow in RWA, credit risk, market risk, operational risk and having 12% of capital as a reference, is something that we will be observing throughout the year. The idea is to finance what comes from regulatory changes and remember that these changes are in a phase-in stage.

They will be addressed until 2028, whether operational risk or credit risk. There are changes coming over the next few years that will be all taken into account. I believe that we will continue to distribute significant dividends, on an ongoing basis.

In the event of any change in scenario or otherwise, we will change the path, as we do not want to commit X with some payout. Perhaps the most important message from all of this is that the sensitivity to exchange rates we had in the past, whether due to assets in foreign currency, local balance sheets and countries or due to overhead, is hedged. Therefore, the bank may indeed work with even more leverage over time, if we understand that it makes sense.

Perhaps it is not the best time to discuss it, given current uncertainties, but it could be discussed at some point in the future, as the bank could decide to work with a slightly higher level of leverage, which could naturally mean more relevant payouts over time. This will be a decision to be made when and if it makes sense.

[Renato Lulia]

Perfect. Thank you, Milton. Thank you, Thiago. Proceeding with our questions, we have Mario Pierry from Bank of America.

Hello, Mario. Good morning. Thank you for joining our call.

[Mario Pierry]

Good morning, everyone. Firstly, congratulations on the earnings. Very predictable once again.

We also thought the guidance to be very much in line with our projection. We really appreciate this visibility of results. Milton, I wanted to focus a bit more on the guidance on the portfolio growth.

You are expecting a nominal GDP growth of 8% and a portfolio growth of 6.5%. I wanted to understand a little better here, Milton. Could you please elaborate on the growth by product line and also the growth in Brazil versus the Latin American portfolio, which generally has this effect, as your total credit reflects your operations outside of Brazil.

Is this growth just for Brazil or is it the total 4.5, 8.5? Brazil should be growing a bit faster and is Latin America bringing these figures down? I wanted to add to it. Your guidance on cost of credit does not seem so negative.

I find the load guidance here, and you are stating that the cost of credit will remain stable. It seems to me there is great fear of the credit appetite, whereas cost of credit is not worsening so much. Could you please elaborate on that? Thank you.

[Milton Maluhy]

Thank you, Mario.

Thank you for your initial words. It is always great to see you here at our call.

Well, firstly, growth in Brazil tends to be higher than in Latin America. I think that in Brazil we will grow at the midpoint, around 7, there is about 50 points of mismatch between the consolidated figures and the Brazil portfolio. It is distributed across different businesses, and with some businesses that will depend heavily on market dynamics, whether in exchange rate variations, which have an effect, or especially in capital markets.

This year we posted strong growth in the corporate segment, as the capital markets were very active and we found good opportunities to increase portfolios. You have then a base effect. Remember that the dynamics of Itaú BBA, which undoubtedly has an effect on the portfolio, is aimed at finding opportunities to rotate the portfolio rather than carrying out a buy and hold strategy.

This buy and hold strategy is to be adopted when the operation makes sense at the right price, but always with this vision of rotating the portfolio and optimizing the relationship with clients and optimizing the bank's capital management. It will mostly depend on this scenario. I think that this year's local capital market could be 30% or 40% smaller in terms of volume than it was in 2024, which naturally brings some challenges to have more origination and distribution.

On the other hand, you may have opportunities to increase the loans portfolio a bit more. In the individuals portfolios, we will be relatively well distributed across the various business lines, as the more we look at the product, the more we look at the client.

In an era where we talk about hyper-personalization and client service, the product is no longer necessarily the flagship. Importance must be put on how we serve clients based on their specific demand and risk profile in that segment.

We think that the individuals portfolio can continue to grow. Then we can have double-digit growth again in the very small, small and middle-sized companies. Again, focusing on the right product, at the right risk, the credit performance has really been excellent.

Let me set apart your final question on prudence /credit indicators and guidance on cost of credit. Firstly, I think the bank has never been better positioned to face a scenario, whatever it may be. Whether it is a scenario of opportunities or of greater challenges, more delinquency, or a scenario of greater pressure, we have to look first at the quality of our portfolio, profitability and capital allocation and, most importantly, the distribution of the portfolio among target clients who are resilient in longer cycles.

Therefore, we are indeed prepared for some volatility, if it comes, and also prepared to grow more if the opportunity arises. Today we have no issue that can hinder us, be it capital, losses, or NPL indicators. On the contrary, I think we are in a unique moment to be prepared for what lies ahead.

The prospective cost of credit is a reflection of a portfolio that we have established over the last few years. It is true that, if you look at the cost of credit adjusted to the Americanas effect, we had a reversal in the third quarter of last year, actual last year 2024. It turns out that when we exclude this effect, the portfolio is growing 4% in relation to the cost of credit. This is for a portfolio that will grow in Brazil 7% or 6.5% in terms of consolidated figures, at midpoint.

Remember that we want to use the range. If we have to grow more, we will do so. If we have to make any adjustment to the current guidance, we will do so as well.

The core message here is that we are very comfortable with this level of cost of credit. We anticipate no market crisis, despite the pressure of interest rates higher over a longer time. I believe our portfolio is very well hedged.

The increase in cost of credit has a prospective view of expected losses, because as we have grown the portfolio well and we continue to grow, we always call the provisions forward. I think the evidence here is the "proof of the pudding" of Resolution No. 4966. When we compared our model to the 4966 requirements, which is expected loss and IFRS, in the 'tropicalized' view, we had zero effect.

Zero effect on the cost of credit, zero effect on equity, due to this expected loss. This demonstrates our capacity to recognize provisions, which is very accurate. This gives us much security towards which lies ahead.

I reinforce that we are comfortable with the cost of credit. We think indicators have hit historical lows, and it is difficult to imagine an improvement. The indicator is not improving, despite the very robust growth in the fourth quarter, it does have an impact on the portfolio growth, but the great issue is that NPLs are falling. The formation nominally, especially in the retail portfolio, is also falling. I will reinforce that we are comfortable with the guidance on cost of credit, as we will work hard to have the lowest cost of credit and not to miss opportunities.

It all comes to not making mistake number 1, which is making a mistake with credit, and not making mistake number 2, which is failing to do business that makes sense due to an excessive conservative approach. We always look at longer cycles, as we do not manage the bank's balance sheet by looking at short periods. We grow because the market wants me to grow and then I spend two years explaining why the allowance for loan losses was recognized and why the credit quality indicators are so high.

We have here the present value in terms of creating value all the time in longer cycles. Therefore, we are comfortable with our outputs and if opportunities arise we will take advantage of them quickly.

[Renato Lulia]

Great. Thank you, Milton. Thank you, Mário. Let's move to the next question, from Yuri Fernandes from JP Morgan.

Hello, Yuri, good morning. Thank you for joining our call.

[Yuri Fernandes]

Thank you, Lulia. Thank you, Milton. I am one more to congratulate you on the earnings. I think that your expectations are in fact very high, but this is part of your success, Milton.

My question concerns your wholesale business. I think this is a year we will have a higher Selic rate, and I wanted you to elaborate on your perspective for the debit capital markets (DCM), spread open, and how this should impact origination, if anything concerning asset quality is a concern to the bank. I think that, in theory, considering the floating rate of wholesale banks, this should be a good year. Could you please elaborate on the wholesale business, Milton? Thank you.

[Milton Maluhy]

Thanks. Thank you, Yuri.

Good to see you here at the call. I think that expectations are what the word says: expectations. What we try to do is to deliver or exceed expectations whenever possible and have good awareness of the future scenario. This is how we have been managing the bank for a long time.

Talking about the wholesale business, I have some messages. The first one is that the bank's portfolio is very well positioned. We have been able to grow this portfolio. There is indeed the effect of exchange rate variation, I am talking exclusively about Itaú BBA here, but even so the portfolio has grown significantly, with very good ratings and adequate rates and spreads.

It is very important to make this point, because it is easy to grow a portfolio with a low spread and destroying value, it does not require any technology. What we aim to do is precisely to look at the client's vision, cross-sell, RAROC, return on allocated capital. This capital allocation discipline means a competitive edge for the bank today. And this makes a big difference as we allocate and build relationships.

What also makes a big difference at Itaú BBA, in my opinion, is the positioning of the franchise, which goes far beyond a very strong, robust and well-positioned loan portfolio, with low concentration, looking at longer cycles, at the right price, with good profitability on allocated capital. However, it is our entire cross-sell capacity that makes a huge difference. Whether it is the cross-sell of day-to-day operations, foreign exchange, derivatives, or the entire cross-sell of payments, flows, cash management, or the entire cross-sell of investment banking, which is not just a cross-sell. I think it has added value and alpha. Naturally when you have a relationship of trust with the client, you meet all their needs, as Flávio and the Itaú BBA team say, from day to day until D-day, this makes a huge difference in the holistic management of the portfolio.

We believe that this is a year of strong results. In terms of capital markets, this was the greatest year in the history for the bank and the market in volumes and results. I think we rode this wave very well in terms of revenue pools and rankings.

Once again the bank has positioned itself very strongly in this market, with quality, profitability, strategy, adequate structures and quality of performance. Now the volume tends to be lower for 2025. We expect it to be 30% or 40% lower in DCM.

With this level of interest rates, we cannot imagine windows into the world of equity capital markets. We believe that it will be a relatively timid market, with occasional follow-on opportunities, with one-off cases. The M&A agenda will always have its most active moment depending on prospects. This is what I think.

Now, as we have a complete portfolio we can achieve this balance within the bank as a whole, especially within Itaú BBA. Even though you may not have such a booming year in some lines of business, other lines tend to perform extremely well.

Overall, we expect a very solid year for Itaú BBA, with very high profitability, always making any required capital allocation adjustments. This operational risk phase-in stage impacts the business profitability, as it should be. This credit risk phase-in will always have an effect and a rebalance throughout the year, *ceteris paribus* with results, as the expectation is very strong. We are really not anticipating any credit crisis.

Naturally, we know that in the wholesale business there are some cases and events, as this is a relevant portfolio under management in different segments. It is also a very diversified, well distributed portfolio with huge quality. We have never had such a strong quality mix, as we have been working naturally with the lowest cost of credit indicators on portfolio, that is, 0.6, 0.5, 0.4. Can it get worse? Of course it can, but we have a full absorption capacity.

The last point to close the question is our very strong level of provisions for those cases that require attention. We are basically fully provisioned for those cases that raise any level of concern. Therefore, we see no need to speed up the recognition of provisions.

On the contrary, I think that if we manage to deliver the transition of these credits, we may even have reversals over time, something that must also be taken into account. The coverage ratio is not a good metric for this portfolio. In contrast, the level of provision on the portfolio is very adequate. We look at each name, at the statistics, at the segment, the stress, and we are very comfortable with the quality of our portfolio.

[Renato Lulia]

Perfect. Thank you, Milton. Thank you, Yuri. Next question is here on the screen. Everything is right, Nishio? Welcome to our call. We can't hear you...

[Eduardo Nishio]

Good morning, Milton and Renato. All right? I have two little questions. The first one concerns your ROE. It is hard to see where you can improve. You have had massive results there. However, looking at the verticals, the different business views that you report, the credit vertical, despite the improvement, still operates below your cost of capital.

How do you see the evolution of this vertical over time? The Chile operation, which still operates below the cost of capital, posted an improvement this quarter, but still below the Latin American peers that you manage to operate with a very interesting ROE.

My second question concerns the credit cycle, that is, NPL, the quality of the portfolio you have been able to improve even compared to the pre-pandemic levels.

How do you look at this indicator and can you maintain it at this structurally very low level? Do you anticipate any worsening in the cycle in 2025? In short, could you elaborate on the new vintages, how they are coming along. Thank you very much.

[Milton Maluhy]

Great, Nishio. Thank you very much for your question. Firstly, from the profitability viewpoint, we naturally have our homework to do every day. Capital allocation is undoubtedly a mantra here, as we talk a great deal about it.

This is a competitive edge for the bank, isn't it? I really think so, due to the way we manage capital, allocate it, make prospective decisions. We do not go around carrying out operations looking only at the short term or giving wrong incentives at the end. I think this is a major differential, which has proven to be strong in terms of strategy and decision-making. You mentioned some business in which the credit in the business is down. That is true, the cost of capital has made a significant catch-up over time and you do not reprice the portfolio at the same speed as the Cost of Equity, or COE, rises.

This is an important message. As you see a rising cost of capital, the ROE of loan operations tends not to keep up at first and you start to reprice the portfolio over time, and there is a certain time mismatch. On the other hand, it is this loan portfolio that enables us to have the level of revenue from services and insurance here at the bank.

Therefore, this is our ability to cross-sell and not look at the RAROC of the stand-alone credit. It is clearly important to look at the RAROC of the stand-alone credit, but not to ignore all the cross-sell capacity that we have with that client and look at the relationship, as, at the end of the day, you must look at the return on capital of the relationship, rather than at a specific one-off operation, even if we do both things and with much discipline. I think this is a differential in the way the bank prices and operates.

Concerning the Chile operation, I think we are more conservative in the allocation of the business model than we could possibly be. There are two reasons for that. One of them is the tax issue.

When you look at the profitability of our bank locally, the size of the operation, the level of cross-sell that we generate, you see we are being able to operate the bank with very competitive profitability. It turns out that when you compare it to the business model analysis, there are three factors that end up affecting profitability with our careful allocation of calculations, as we do here at the bank. The first one is inevitably the tax issue.

With the Universal Taxation system (TBU), when you bring the result of a country, you have to complement the tax here in Brazil. This is different in the OECD. The government if fully aware of this issue, as there is a discussion of Pillar 2 of taxes and also of the TBU under way at the government level, so that the market can standardize procedures based on the TBU at all levels.

Obviously this depends on Congress approval, and there is still a long way to go, but I have high expectations that this tax issue can be resolved in a reasonably short timeframe.

This is a discussion that has been under way for a long time, it is not a topic exclusive to Itaú Unibanco, but rather for all multinational companies with operations abroad that see a competitive edge becoming a disadvantage, since you lose competitiveness to the extent that you cannot compete in the markets with the same tools. The government is fully aware of this aspect. We have already had conversations with the highest level of government, and have good expectations that this issue will be resolved, to unlock value in this operation in the following day.

The second key aspect is the allocation of capital. The minimum regulatory in the Chile operation has no add-ons. According to how the regulator looks at this aspect, we already have a very adequate buffer for the operation. Like in Brazil, for consolidation purposes, we operate with a minimum of 11.5% of capital, and if Chile is running at 10%, I add an additional 1.5% at the stockholder viewpoint, and it is based on this capital that I measure profitability.

If I simply take into account that I would have an appetite to work with 10% of capital in Chile, which is the rate other banks work with, this would seem extremely appropriate. A key point is that if you compare to other large comparable banks and look at the add-on set by the regulator, our differential between the minimum regulatory and the capital we operate is greater than that of some larger banks operating in Chile. We carried out a very appropriate buffer for capital.

If I exclude this effect, profitability will increase even more. Why? Because, as a rule, the stockholder who bought a ITUB4 share does not give me a different COE, as I have geographic diversification. They should, in our view. In practice, we are more conservative and believe that this stockholder does not take this aspect into consideration.

Excluding these two effects, the return increases significantly for the bank and these assets start to create value for the stockholder. Therefore, this is accretive to the bank's profitability. It could be accretive if we excluded these two effects.

One factor, possibly under discussion, and eventually is expected to be approved. The other relates to the preciousness with which we allocate capital in the Chilean operation and disclose it under the business model.

The last factor is the cost of the ratio hedge. This cost has an opportunity cost in the Chilean operation as well, as we end up allocating a portion of the cost to the business model. I would say that the operation, if we want to be more precise, provides better profitability than the business model, but this is how we make this adjustment as a whole.

Then, this is it. I think there are opportunities in the retail segment and I continue to believe that, with One Itaú and everything we are doing, we have the capacity to improve the profitability of these operations over time.

You have added other questions. Renato, please help me here, I think that something is missing.

[Renato Lulia]

The NPL 90 issue.

[Milton Maluhy]

NPL 90, in short-term, 15 to 90 days and the 90 days overdue. We have not seen any mismatches in the vintages, all of them performing very well. We have seen some disclosures, anyway, and more pressure on NPL 15-90.

Looking at our figures, we reduced 50 points in the quarter, 20 of which explained by a portfolio growth, in NPL 90 for small and middle-sized companies. A 30 basis points reduction in the NPL. It is important to clarify that we are very comfortable with the quality of the vintages and foresee no issues. This demonstrates good portfolio management, that management through the cycle has worked, which has enabled us to provide opportunities. We will not have to explain all the time, unless a radical change occurs, an increase in NPL, unless there is a rupture, which will enable us to continue growing with quality for the coming years.

We are very comfortable with all the results, whether it's the short, more timely delinquency, or the over 30 mob 3, everything that we measure at very satisfactory levels.

[Renato Lulia]

That's it. We covered all issues. Thank you, Milton. Forgive me. Next question comes from Renato Meloni from Autonomous. Hello, Renato. Welcome. Thanks for the question.

[Renato Meloni]

All right, Renato and Milton? Thanks for the questions and congratulations on the earnings. Great to see you! I have two questions. The first one is about the guidance.

In fact, how do you see the trajectory of the guidance materialization? You start the year growing at a similar pace, with low provisions. Does this reverses in the second half? Or do you have a linear expectation here? Could you please also address the main risk you see this year? The second question is about payroll loans to the private sector. How do you see the evolution of this product? Do you think that this is an opportunity for you or actually more of a risk, given your significant share in the segment? Do you also see a risk of market cannibalization of other products, especially as you already have a consumer who is leveraged and potentially unable to take out more credit and would only exchange this, personal credit for example, for a cheaper product? Thank you.

[Milton Maluhy]

Thank you, Renato. Thanks for the question. It is always great to have you here with us.

I will start talking about the linearity of the guidance. It is very difficult, given the size of our operation, to assign the geography at origination to each line. It will mostly depend on the results for the first quarter.

We come here to talk and you start to understand better how we behave. Remember that last year the portfolio for the first quarter was below the guidance. And we ended the year above it.

There are different behaviors in the many lines. There is some continuity in others that are easier to project. I do not see great volatility overall.

I think the bank's portfolio has issues like that. It doesn't bring much volatility, except for one or another specific business, some more structured wholesale business operations, performance fee. We notice that the second and fourth quarters are typically the months where we can capture these effects.

The remaining lines has a certain linearity from an accounting viewpoint as well. Margin with the market has volatility, as we can have a better or worse quarter. However, overall, we can expect a certain linearity depending on the time. We have to look at the base effect compared to the previous year. Experiencing a weaker or stronger quarter can generate effects and some changes.

This is the first aspect. The second point concerns private payroll loans, and I want to make some comments here. Firstly, I think this an exceptional opportunity.

It may become a very strong and positive credit program for Brazil. We recently had a meeting with President Lula and his ministers, precisely to discuss its potential and importance. I'm going to tell you what I said in that meeting: total wage bill in connection with private payroll loans is about R$117 billion.

Today, if you look at private payroll loans and personal loans, the share of these two lines together results in a ratio of 1.1 to 1. In other words, we have 10% more credit for this target group than we have in wage bill, and 30% of these operations are carried out in private payroll loans.

70% are granted through installment payment plan, personal credit, consumer loans, whatever the name. Payroll loans for public companies and INSS beneficiaries are very different. You have a wage bill that is half, that is, R$60-65 billion in each case, but leverage is 5 to 6 times in terms of products and a share of payroll loans substantially greater for these INSS and public target groups compared to the private sector.

There is clearly a series of reasons. These are very different risks. Concerning private payroll loans, today you mostly depend on the payroll of these private companies, with agreements signed company by company, as there is an entire operational development.

Studies are being under way for a solution, such as the CTPS (employee's registration card and working papers), so that we are able to have access, through this channel, not only to workers' data, but also to an operational flow that is practically ready, as all funds and charges collected from the length-of-service guarantee fund are currently done through CTPS. Therefore, it is much simpler to operate. It has challenges as an industry, but it is simpler for companies to operate once it is up and running.

I'd rather have a smaller share of a market that is five or four times larger than our current share of a very small market. To provide some figures, private payroll loans is a market worth R$40 billion today. We have a 30% market share, being the leaders, with R$12 billion in portfolio.

I'd rather have three times more portfolio, even if I lose a little share, in a market that has everything to expand and where I can better serve our clients. What are the concerns? Firstly, client getting into debt. At the time you launch this program, there are many people who already have other debts. As I said a while ago, 70% of those who are taking out this credit facility are already indebted with other products. If these clients simply take out the private credit in addition to their own debts, there is a risk of a super- or over-leverage, which we think is not healthy.

The government is fully aware of the need to find mechanisms to help us mitigate this situation, especially at the origination. The second all-important point that all institutions' channels can offer this product to our clients. This is done so that we do not have monopoly or a marketplace, as this would be very harmful to the borrower, in terms of the client journey, capacity to gain market share, and response time capacity.

This is a discussion in which CTPS will have its role. We can indicate through our apps the existence of this tool for the client to compare with others. The market will undoubtedly become more competitive. And here there is a differential I see in our favor.

It is about our capacity to manage the risk associated to companies. In the end, our capacity to assess the risk of these companies is as important as issues like the client's average salary, the length of time at the company, and the turnover in the sector. We have a huge loan operation for these companies, whether through Itaú BBA or our corporate business units, with a credit performance that sets us apart from our competitors in the market.

The risk of these companies is essential to this decision-making process. The sector in which the company is located, its turnover rate, business cycle, business continuity, are all aspects that must be taken into account. We are very comfortable with the idea that if this market is launched, we will work very hard to increase our market share.

Even though we do not have a 30% share, which is far above our fair share, we believe that the share can be higher. More competitive credit facilities play a significant role, as they reduce NPL and we are able to serve a bigger salaried population. What is good for Brazil is good for consumption, and it is good for everyone.

[Renato Lulia]

Great. Thanks, Milton. Now we move back to English, as we have Jorge Echevarria from Morgan Stanley. Thank you for joining our call and for your question.

[Jorge Echevarria]

Hello, Milton and Renato, how are you? Thank you for the opportunity to ask a question. I'll ask a quick question about the acquiring business. Total payment volume (TPV) growth slowed down for both credit and debit cards. For example, the TPV of credit card was up 6% this quarter from 18% year-on-year. Debit cards remained stable compared to last year's 7% growth, as did their market share at about 22%. Now, some questions.

The first one concerns the dynamics of the market share for the fourth quarter, that is, did market share remain stable or were there market share gains this quarter?

The second question concerns the acquiring business prospect for 2025, both in terms of TPV growth and competition. As the Atlas initiative is growing in connection with SMEs, you are expected to potentially not be so aggressive price-wise. I'll explain it better: with a higher Selic, it is expected that other acquirers will increase volumes, in particular of pre-paid credit cards. There is an expectation that Itaú has more room to maneuver the price and perhaps be more competitive in 2025. Thank you.

[Milton Maluhy]

Thank you for joining the call, Jorge. I have a broad view of this discussion, and I will try to be as pragmatic as possible to deliver the key messages. The first one is that for many years, when acquiring companies were listed on the stock exchange, there has been a big discussion about the acquiring market, the relevance of the market share, the profitability, whether we gain or lose share, the TPV growth, the MDR rate charged for credit and debit transactions, and so on. I believe this dynamic has already changed for some years.

Looking at some numbers and the management of capital, receivables and payments for our clients, the TPV for credit cards, system-wide, is only 4% of the entire capital management business. Therefore, although significant and important, it is merely 4%. We look at the market as a whole, rather than only at credit cards and the acquiring business. This is the first point.

The second one refers to the way we publish our data in the sheet, as this is not accurate enough to calculate the take rate and profitability. This is due to two reasons. MDR and prepayment of receivables carried out, which is embedded in the MDR rate, are in the commissions and fees line.

At the financial margin with clients, we have prepayments when we buy receivables and the financing cost of the prepaid MDR. For these two reasons it is not possible to look at the whole business through the line analysis.

The third and very significant piece of information is that, even if we have been the leaders in this market for some quarters, we do not look at market share as our competitors do. For us, market share in this business does not mean profitability or the right price. We focus on the objective market, and we do not believe that you need to rent market share to post better numbers. When it is priced negatively, and we see it happening, it does not make sense to fight for this business. You don't pay me more or less on my multiple because I have more or less market share.

Business profitability is the key factor. As the business is fully integrated into Itaú Unibanco, it is not an isolated business as it was in the past. Therefore, if we look at this business alone, we see a 40% growth in profitability year on year. There are still other benefits from the integration with our Enterprise, SMEs, and Itaú BBA businesses that are much more significant. We look at the client not as a product, but rather as a client. We do not need to price each product perfectly, otherwise we are not delivering the best product or offer they need.

The agenda for changing how this data is published for the next quarters is under discussion, as we believe the way it is currently done could lead to errors. Being the first or second in terms of business share is not our goal. Our goal is the profitability of relationships and the business sustainability. The point in which we must have a fair share, as profitability can be proven, is what set us apart from our competitors.

Therefore, where large companies move the market, two thirds of the TPV, is where we have a small take rate. There is a fierce competition for the market share. So, please feel comfortable. If a company wants to show it will gain market share to be the leader, then feel comfortable to do so. We care about profitability and having our business fully integrated. This s the main change in recent times.

In the past we did things this way, but things changed at Itaú Unibanco a few years ago and we are happy with the integration and results achieved so far.

[Renato Lulia]

Thanks, Milton. Thank you, Jorge.

Our next question comes from Brian Flores from Citi. Brian, thank you for joining our call. Thank you, Milton.

[Brian Flores]

Thank you, Renato. We have already talked a bit about efficiency on expenses and cross-selling. When it comes to commissions and fees, what leads to this dynamic of increasing below the portfolio growth? Another topic we have not talked about much today concerns One Itaú. How would One Itaú enter into this equation? Thank you.

[Milton Maluhy]

Awesome. Thank you, Brian. Great to see you here. Thank you for the question.

I think we need to look a bit at the mix of our commissions and fees. They have in fact increased. For me, commissions and fees are much more associated with GDP activity than the portfolio.

Our commissions and fees are broken down into a number of business lines. Therefore, if we make an overall visualization it will be difficult to explain the changes. From the issuer side, we have performed a very strong portfolio de-risking over the years, increasingly focusing on clients who are more relevant through the cycle and looking at the card as a relationship and transactionality product, which is very important for the engagement.

Focusing on continuing to grow the product, as we have shown, we posted a 17% growth, year on year, in Personnalité and Uniclass. This is a good growth pace, which is reflected in interchange. However, the de-risking of the portfolio also had a negative impact on interchange as you have a lower portfolio for these clients.

The NPV due to this decision is extremely positive, as, in addition to the interchange, you have to take into account interest and the entire NPL, even more so in a challenging cycle in terms of delinquency like the one we are observing now.

That means that we have a more challenging credit scenario, with higher interest and inflation rates and a high spending of income to service debts. Time will tell how this will materialize, and how intense it will be. Asset Management is among two or three very significant lines where we see opportunities to continue growing, whether due to the volume of funding, as we had a very strong funding flow in the past, with Asset recording the highest volume of funding, or due to performance fees, which is somewhat similar, or very similar, as there are some nuances, to the margin with the market.

An ex-ante analysis is very difficult, but we have more in-the-money volume now in Asset than at the end of the year, which shows our increased ability to perform and demand performance at the end of the year. We are optimistic that we can have a good year of results. The *consórcio* line is performing very well with solid growth year-on-year. Of course its base line is lower, but in the end everything adds up.

We expect a growth or non-growth in the investment banking and advisory services year-on-year, especially because 2024 was so strong, notably in debit capital markets (DCM). We recorded the biggest record in volume and profit pool in history. Therefore, we don't expect, especially with interest rates at high levels, that we will have a similar year with the same intensity. We expect volumes between 30% and 40% lower than in 2024, which naturally impacts our ability to generate revenue.

If the market improves or an opportunity arises, we will take advantage, given our relevance and position in these markets. The insurance line stands out, as it has been growing revenue every other year. We have radically changed our level, as we have more than doubled our results in the last four years and continue to see opportunities for growth.

Part of this growth comes along credit expansion, and it is natural that it happens, but it is not the only reason. Whether on the open platform, through which we have achieved significant growth, or in other products, this is a dynamic that has been evolving in a very positive way. We see major opportunities in some markets that we were not exploring very much.

Ultimately, we see an opportunity to continue exploring and growing significantly. The bank's insurance operation still has plenty of room to grow. We are delighted and very satisfied with the progress so far.

These are the main lines to show you that there are positive points and others that grow less. But it depends a great deal on the previous year and on which market we transact. This picture does not capture a linearity of business, as they are very different businesses.

About One Itaú, which you asked about, we have no expectation and it is not implicit in the guidance what we can do at One Itaú. We have already migrated more than 5,300,000 clients, currently there are already six million, and this year we will complete the migration of 15 million. Priority number 1, 2 and 3 so far has been quality and a smooth migration.

To give you an idea, more than 99% of clients who were invited to migrate have done so. 99% of clients. It shows quality and a simple, smooth journey.

It has to be journey to wow the client, so that they are able make this migration without pain. Now we begin to move towards a new era. We know our clients, we have increasingly deployed new features in the Super App, not only for migrated clients, but for the base as a whole.

We have significantly evolved all the digital advancement of features. Just look at the number of products we have delivered within the Super App, we are at a new pace of delivering products and services, context and quality for our clients. Therefore, One Itaú and its potential are not implicit in the figures we saw here. However, with everything we have observed and the extraordinary opportunities as well, it tends to be one of the biggest growth vectors when we look ahead in the retail business segment.

It is not only for low income, but also middle- and high-income clients. We are very thrilled so far. So far, so good.

We will share with you when we get more concrete figures, but, for now, I think we are on the right path and exceeding our expectations. But there is a lot of homework and a lot of work to do. I don't want to over promise, I prefer to over deliver.

[Renato Lulia]

Great, thank you Milton. Let's move back to English. We have here Carlos Gomez from HSBC. So good to see you again! Welcome to the call.

[Carlos Gomez]

Thank you for the opportunity, congratulations on the results and as always thank you very much for the generosity with your time and for answering all the questions.

My question is how you started the year, where was your guidance initially, and you expected that in 2024 Brazil would grow 1.8%, but it grew twice as much, 3.6%. You also expected a lower inflation rate. How do you think this reflected in the results? Is there any downside risk in relation to your expectations for the years to come?

My second question concerns interest rates. According to the guidance, this year interest rates will rise, and last year it was at the upper threshold. Are there any changes that we should take into account? Or any reason why it is higher? Thank you.

[Milton Maluhy]

Thank you for the question, Carlos. As I have mentioned before, looking at the outlook in 2025, GDP it is the best number available. Agribusiness should grow by 5% this year. It must be relevant not only to the business, but to the impacts it generates around it.

Agribusiness is very strong throughout Brazil. GDP is a piece of information we use, but at the end of the day, we are so connected to clients, to the activity, across all lines of business, across all businesses discussed, that if the activity improves, we improve as well. If there are more opportunities, we don't waste time just because GDP is expected to grow by 1.8% and it ended up growing 3.6%.

Since GDP growth has many impacts across the country, regions, locations, industries, we are connected with all these businesses and we feel the flow live. GDP is a consequence. Of course, you can predict GDP, but if the behavior during the year is different, we can capture that live, due to our market share and the relationship we have with the entire country, companies, and clients.

Accordingly, we use GDP data for forecasting purposes only. If any change occurs, the economy gets worse or better, of course we are forecasting, but we feel everything that happens live in real life in our business.

Regarding the second question about interest rates, we need to take two things into account. Firstly, we are paying a relevant dividend that impacts the bank's interest on capital, as the more capital, the more interest on capital. Secondly, the interest on capital benefit is limited too. The higher the organization's profit, the lower the impact of interest on capital on the effective rate.

Of course, we don't just have the bank paying the 45% tax, as we have other companies in the conglomerate paying other taxes. Therefore, it depends on many things that can have an impact, such as the mix of businesses that we are generating profitability, the interest on capital, and the level of capital and profits.

We are growing and making changes to next year's deferred tax assets (DTA), as there are many factors that affect the bank's effective rate. Therefore, a combination of these factors end up impacting the bank's interest rate.

[Renato Lulia]

Thank you Milton, and let's move to the last question from Nicolas Riva from Bank of America.

Nicolas, your audio is not working.

Milton, we received several questions here. May I ask one while Nicolas tries to connect back? Let me get one question that arrived via WhatsApp.

[Milton Maluhy]

We will try to contact Nicolas. If it's not possible, then we call him later and get his question. Come on!

[Renato Lulia]

We have all the questions here. There are many questions about guidance and costs. Also many questions about migration to the Super App.

I will get one here. About One Itaú's Super App: when do we expect to reach the full potential of this migration? We have already said that there is nothing incorporated in the 2025 guidance, that the main point now is quality, client satisfaction. When do we expect this initiative to mature, Milton?

[Milton Maluhy]

I have the impression, Renato, that in the next six months we will have a better idea of our real capacity to relate to the client, to give credit, to cross-sell. Remember it is a client we already know, they are not new clients, so I already know their behavior.

Let's remember that this is a client who already has a relationship with us and that they now have access to a series of features inside the super app. I think there are all opportunities, but we need to test, pilot, learn, understand. It's unlikely that in the middle of the year I will say something like: "ah, I have all the answers", I will have more information.

By the end of the year we will be more sure. Now, imagine the potential of a little explored base of 15 million clients, who have very different behaviors, deployed across the most diverse segments, and we will certainly have to evolve the experience itself, the journey itself, the context. This is something ongoing.

It is hard to say that at some point in the next six months we will be able to project where we will end up. I think we will be able to show this evolution. What we see as potential is something we can scale up to several other clients.

This is a project that has a beginning, a middle and an end. It's a new way to relate to 15 million clients whom we have always had a relationship through a mono line and now it's completely changed. This will open up new opportunities. It will open up, in short, new solutions, lots of learning, corrections, adjustments.

It is a bit like how we expect to work on this new platform. The fact is that there is nothing implicit in the results. As we become more secure and calm, we will incorporate them as they become naturally relevant in the numbers.

[Renato Lulia]

Perfect. Milton, I was informed here that he was unable to connect, so we will connect with Nicolas, get the question and answer to him later. We will answer all the questions we got via WhatsApp, as of course we didn't have the time to address them all here today.

[Milton Maluhy]

Ok, what I can say to Nicolas before concluding is that, finally, in some cases we made the decision to exercise the call, in others we will look at the economic aspect of the debts, there are several tranches, there are Tier 1, Tier 2, local and offshore Tier 1. I hope this is somewhat helpful, Nicolas. We take a position according to each case. In some cases, we exercised the LF call, in others we didn't.

It means that it will mostly depend on the conditions and the scenario in question. As we get more information, we will share it with you. Maybe it has helped you, I imagine your question could be around it.

Well, to wrap things up, I'd like to thank you. Ultimately, this is it. To show that we are very aware of the guidance that is set, and that we are very prepared to face any challenge.

Speed is the name of the game. So reaction capacity is the name of the game. I think our businesses are all evolving.

It was a year in which all businesses evolved and grew. And it is awesome that we continue to see a lot of opportunities to continue evolving and growing. It's not that we've reached the cap and then we're here without much room to evolve.

I think about all the business, all the meetings, discussions that we have, opportunities on all sides, plenty of respect for our competitors and for what the other banks have done, and that we also have to run and run faster and continue delivering and seeking results. I am very delighted with our earnings in 2024 and in recent years, and very thrilled about our prospects. We will lead this scenario by the scruff of the neck.

I think calm seas don't make good sailors and we have managed to navigate through rough waters. If the scenario is more challenging, we will come out of it stronger. If the scenario is one of opportunity, we will come out of it bigger and stronger as well.

I wrap up here with a positive, cautious tone, as we look ahead and cannot ignore the information there. We have to look at the continuity of what we do rather than just at the next quarter, so that we keep on posting solid results, good profitability, good payouts and good capacity to invest and grow the franchise.

I'm thus thrilled and I'd like to thank you once again for the recognition and the feedback. Finally, in three months' time we will be here again saying "so how was the first quarter?", and then with that we will have a better awareness of any adjustments required, and if they are required, we will make them.

Ok, everyone? Thank you once again, thank you Renato for all the management work together with Gustavo, for the entire relationship with our investors. Onwards and upwards! We have much to do. I'm so energized. All right, everyone? Thanks and see you soon!