Transcription - 1Q23 Results

[Renato]

Hello. Good morning, everyone! My name is Renato Lulia, Group Head of Investor Relations and Market Intelligence at Itaú Unibanco.
Thank you for participating in our videoconference to talk about our earnings for the first quarter of 2023, which we are broadcasting live from our office, at Faria Lima Avenue, in São Paulo.

Today's event will be divided in two parts. In the first part, Milton will explain our performance and earnings for the first quarter of 2023. Next, we will have a Q&A session, during which analysts and investors will be able to interact directly with us.

Now, I would like to give some instructions to make the most of this meeting today.
For those of you watching via our website, there are three audio options on the screen: the entire content in Portuguese, the entire content in English, or the original audio. In the first two options, we will have simultaneous translation.
To choose your option, just click on the flag on the top left corner of your screen.
Questions can also be sent via WhatsApp. To do so, for those of you watching on the website, just click on the button on the screen or simply send a message to the number +55 11 98993-1132.
The presentation we will be making today is available for download on the hotsite screen and, as usual, on our Investor Relations website.

I now hand over to Milton, who will begin the earnings presentation and then I will come back to moderate the Q&A session. Milton, the floor is yours!

[Milton]

Thank you, Renato! Good morning, everyone! It is a pleasure to have you here for our 1Q2023 earnings presentation. Our goal is to make an objective presentation, focusing on earnings, since on June 15th we will host Itaú Day 2023, which will be the right occasion to share with you a lot more about our strategy and our business developments. We will talk about client centricity and digital and cultural transformation. We will go deeper on several topics that we have been talking a lot about with you.

The Recurring Managerial Result was BRL8.4 billion this quarter, a quarter-on-quarter increase of 10%, and which pushed us to a consolidated ROE of 20.7%, representing an increase of 1.4 percentage point, and ROE of 21.1% in Brazil.

Financial margin with clients was BRL24 billion, down 0.7 percentage point quarter-over-quarter, but it is worth mentioning the seasonality of the first quarter, as we can see in the historical series, since it has fewer calendar days.

The cost of credit was BRL9.1 billion, down 7% quarter-over-quarter, and one of the positives is that our nonperforming loans over 90 days remained stable at 2.9%, which is consistent with what I have been talking about for the last few quarters. I will provide more details on this topic in the next slides. Finally, the efficiency ratio on a consolidated basis was 39.8%, a drop of 1.7 percentage point, remaining below 40% for the first time in history.

This clearly shows what our journey has been consistent, it shows sustainable performance and top-notch results in all indicators.

The credit portfolio showed signs of a slowdown, also in line with what I have been saying. The individuals' loan portfolio grew 0.9% in the quarter, below what we had been growing in previous quarters, but still posts a year-on-year (growth of 16%. The SMEs loan portfolio grew 9.2% in 1Q23 vs 1Q22, and was down slightly by 2.2% on a quarter-on-quarter basis, in line with the bank's risk management measures.

The total portfolio in Brazil grew 11.2% in 1Q23 vs 1Q22, and 0.6% on a quarter-on-quarter basis. The corporate loan portfolio grew 1.8% in the quarter. In Latin America, the portfolio grew 11.7% year-over-year or 10.4% excluding the FX effect.

It is still solid growth, but at a slower pace than what we had been posting in previous quarters, since we have been more cautious in light of the current macro scenario.

In the last quarters we have talked a lot about the individuals and retail portfolios, but I know that the market concern now is the corporate loan portfolio. There are concerns about the prolonged interest rate cycle and its effects on the bank's portfolio, and how prepared the bank is to face a more adverse macro scenario when we look into the future. So, we brought some figures that we felt would be important to share with you. We classify our loan portfolio into industries according to their volatility.

In 2014, which was a snapshot taken just before the credit crunch event of 2015 and 2016, during which we really faced a very complex time in the market, especially for large corporate clients, 36% of our portfolio was concentrated in higher volatility segments, which are shorter cycle segments, such as commodities, and therefore generate higher risk in adverse scenarios. Today, only 17% of our portfolio is concentrated in higher volatility industries and we have achieved this by rebalancing the portfolio over the past years. The wholesale portfolio has grown by more than BRL100 billion in recent years, but this growth has been focused on clients with higher risk quality and industry diversification, which has produced important results in portfolio management.

The second indicator shows the concentration ratio of the ten largest debtors to Stockholders' Equity. In 2014, the ten largest debtors accounted for 46% of Stockholders' Equity, and today the ratio is down to 25%. We have also achieved a major reduction by diversifying the portfolio, which is quite healthy, especially in times that may bring some additional volatility. Finally, in 2014, 68% of our portfolio was made up of Investment Grade clients, while today the share of Investment Grade clients in the portfolio is 75%, which also shows all the work we have done to adjust the portfolio mix to improve its quality and, therefore, lower its risk.

In terms of financial margin with clients, in the first quarter we posted a drop of BRL200 million or 0.7%. The first quarter of the year is impacted by seasonality, basically explained by the lower number of calendar days, and there is also a seasonality factor impacting Latin America, which we should continue to observe over the next quarters.

We present the product mix effect to zero to show that we had no mix impact. In working capital, we gained BRL100 million since it grew from BRL2.7 billion in the last quarter to BRL2.8 billion in this quarter. As a result, the big effect on the margin with clients was on the core margin, which is in line with our historical performance, as this is a quarter where typically this happens, so we have no specific concern to this regard.

The NIM, in both consolidated figures and in Brazil, remained flat compared to last quarter: 8.7% on a consolidated basis and 9.4% in Brazil. In risk-adjusted figures, the NIM increases on a quarter-on-quarter basis. I remind you that in the fourth quarter last year we had that big retailer event, and we recognized a provision for 100% of the exposure, but part was already recovered this quarter, which is the main effect.

Looking at the financial margin with the market, again the highlight is consistency. As difficult and volatile as the environment is, our risk and balance sheet management capabilities have proven to be successful. If you look at a historical series, you can see that we continue to deliver a positive financial margin with the market quarter after quarter.

Moreover, in this quarter, financial margin with the market was stronger for Brazil, reaching BRL1 billion, while Latin America had a weaker quarter, especially in Chile, due to inflation effects. The capital ratio hedging cost was BRL500 million. So, the financial margin with the market is very much in line with that we had been posting in previous quarters, once again proving to be solid and consistent.

In general, I would use the word 'consistent' in all the tables of our presentation.

Moving over to commissions, fees, and insurance results, we posted a slight quarter-on-quarter drop in credit card business, but it's still up 16.9% year-over-year, in which acquiring services stands out by posting a year-on-year growth of 30.7%. Revenue from advisory services and brokerage dropped 8.1% in the quarter, but still posting revenue of BRL0.7 billion. This has been a rough year, with less investment banking activity, even for a diverse bank (we offer DCM, ECM, and M&A services). There is a certain seasonality affecting these operations, but we cannot deny that it was a more challenging quarter.

In Latin America (ex-Brazil), revenue is coming as expected, growing 10.9% year-over-year and 5.5% quarter-on-quarter.

Another business that I draw attention to insurance operations, which revenues are down by 1.5% on quarter-on-quarter basis but up by 10.9% year-over-year, and the highlight is the core insurance result. Earned premiums were up 16.9% year-on-year and the core insurance earnings grew 30.9% over earnings that had already been growing strong. We continue to be very pleased with our insurance business strategy and results.

In acquiring activities, as I was saying earlier, the transaction volume went up 21%, while revenue went up 30%. This shows our ability to manage clients, reprice the portfolio, increase the penetration of financial products, and promote the growth of the acquiring business.

Thus, we continue to extract a lot of value from that operation and earnings have been keeping up with our development as well.

In card issuance business, the transaction volume was up 10%, a much lower growth than in previous years, but the main message here is that our client portfolio mix is quite favorable, especially from a risk standpoint.

Card issuance revenues continue to grow in the internal channels, which consists of clients with whom we have a longer-term relationship, they are checking account holders, and they are key for our cross-sell strategy, where credit cards are just one more product in the relationship with these clients.

We foresee a lower growth in revenues and a reduction in the client base in the channels with a lower income client profile, both in the external channel and the consumer finance credit channels. This is very much in line with the adjustment to the portfolio that I have been commenting on, as part of the risk management strategy that we have been doing.

The number of active cards of accountholders grew 14%, which shows that the risk diversification strategy has been very successful.

Speaking about credit quality, we can see a totally expected growth in the short-term delinquency rate (NPL 15-90). I always remind you that in the first quarter of every year, if you look at a longer historic NPL series, the first quarter is always seasonally more pressured. This is due to people's higher year-end spending and bills, which explains why default increases in the first quarter historically.

The short-term delinquency rate for individuals rose 30 bps in 1Q23. The growth of this rate in Q1 over the last 5 years has been between 35bps and 42bps, so 30 bps is the lowest growth rate in recent years.

What happened in the last two years is that this rate went up in Q1 and it did not go back down in Q2 because we were in the process of gradually normalizing the cost of credit and we expected NPL to continue to go up, which we do not expect to happen in the next quarter anymore.

The key point is that we normalized NPL rate for individuals.

The delinquency rate for SMEs was up 20 bps. And the good news is that the NPL 90 days has stabilized, as I have been telling you for several quarters now, and it fits precisely into our expectations for this quarter.

With these results, we deliver risk management capacity, predictability, and consistency, as we have been signaling to you.

The NPL 90 days rate for SMEs in Brazil fell from 2.4% to 2.3%. It is clear that there are challenges, that the scenario may change over time, but we have been able to deliver and demonstrate a very efficient management capacity.

It is hard to track the NPL rate for large corporates because usually in this portfolio when delinquency occurs, the client already has an issue. So coverage ratio may be more adequate, and I will talk about it in the next slide.

The portfolio cost of credit reached 3.2% and, if it weren't for the subsequent event, last quarter's ratio would have been 3.0%; so, there was a slight increase.

I have been saying for several quarters now that we should normalize the cost of credit at a pre pandemic level, and that is what is in fact happening: the current cost of credit is at 3.2% and pre-pandemic it was 3.3%. Last quarter, due to the subsequent event, it was 3.5%.

The cost of credit was BRL9.1 billion, which would be more comparable to the cost of credit of BRL8.5 billion in 4Q22. The difference to the BRL9.8 billion posted in 4Q22 is explained by the subsequent event involving the retailer for which we provisioned 100% of the exposure in 4Q22.

The total coverage ratio was flat and there was a slight increase of 1p.p. in retail. The average retail coverage for the last four years pre-pandemic, from December 2015 to December 2019, was 167%, and we are running at 182%. We continue to provision our formation and maintain our expected credit loss management, which is key to have a sound balance sheet, with adequate provisions and prepared for the challenges that lie ahead.

I think that in terms of credit, despite the challenges and the current scenario, we have good news to share with you.

Non-interest expenses in Brazil dropped 3.5%, but we have the seasonal effect in this line, since Q1 is typically weaker in terms of costs, which explains the drop in the quarter and the 9% growth year-over-year.

For the first time in history, we achieved an efficiency ratio below 40% on a consolidated basis, it was 39.8% in a quarter where non-interest expenses grew 7.7% year-over-year and fell 3.5% quarter-over-quarter.

The efficiency ratio in Brazil was 37.9%, which is also down from last quarter, which had already been a good quarter. So, these are the lowest efficiency ratios in the industry when we consider all expenses, without any reclassification, and calculated in a manner we believe to be the most correct. They are the lowest efficiency ratios in the history of the bank.

About the cost base: our quarter-on-quarter core costs fell by BRL 700 million, a drop that is mostly explained by our efficiency program, which fostered cost discipline and focus on costs, and it has a volumetric effect, which is the good cost, the cost that we would like to have more of as the business generates more activity.

And more importantly, we continue investing in our businesses and in technology, delivering sound and consistent earnings, taking care of the bank of today while investing in the bank of the future.

It is worth noting that we are not delivering these efficiency ratios by cutting off investments. We are at full speed with our digital transformation. We are expanding businesses, focusing on capital discipline and in value creation, and continuing to invest in the bank.

Moving on to capital, we were practically 10 bps above Common Equity Tier 1 we presented in the previous quarter. We increased earnings, already adjusted for the distribution of Interest on Capital. There were also the effects from risk-weighted-assets and prudential adjustments.

We ended 4Q22 with Common Equity Tier 1 at 11.9% and it reached 12% in 1Q23. Considering AT1, we reached 13.5% Tier 1 capital. In other words, our CET1 of 12% percent is 50 bps above our 11.5% appetite, which was approved by the Board of Directors.

As we can see, the bank is well capitalized and points to a very positive trend.

And finally, I would like to extend you an invitation to attend Itaú Day 2023, which will take place on June 15th.

During this event, we will have the opportunity to have a very open, transparent chat to share with you a clear view of what our strategy has been, how we are taking care of our clients, of our culture, how we have been carrying out the digital transformation process, and how we have expanded and been able to deliver these sound, consistent earnings.

I am counting a lot on your participation. It will be a pleasure to have you with us in this event.

And with this I wrap-up the presentation. I hope that you have been able to understand the main drivers to deliver our earnings. In fact, I think that during challenging times, soundness and consistency should be of great value and our earnings show it. I will now join Renato for the Q&A session where we can share more details.

I will fly tonight to attend our conference in New York, and I will surely meet with many investors. Thanks, and see you soon!

I wish you all the best!

[Renato]
Hi guys, I'm back. Milton has just joined us here too. How are you, Milton? Thanks for the introduction. We will now start our Q&A, which will be bilingual; so, you make the question... and we will answer in the language in which the question was asked, English in English, Portuguese in Portuguese, but there is simultaneous interpretation for those who prefer it; here on your screens, you can see the options Portuguese audio, English audio, or original audio. You can also send your questions via WhatsApp, at (11) 98993-1132. Well, I already have a few questions here, the line is long, so, without further ado, let's go to the first question... Ok, Milton, shall we started here?

[Milton]
Let's go.

[Renato]
I have Thiago Batista here on screen. Hi, Thiago, good morning, how are you? Welcome here to our call of the first quarter. Thanks for the question.

[Thiago Batista]
Good morning, Milton, good morning, Lulia. Good morning, everybody. Congrats on the results, once again, very strong, it seems like the bank is operating in another country, in terms of portfolio quality. But my question is not about this, my question is about the profitability of the business areas. When here we track post-pandemic retail and wholesale... I don't know if it's a coincidence or not, but the profitability of these two products has changed a lot; so, retail was around 30 percent, wholesale around 17 percent, and now we... it is basically the reverse, the last figure is around 17 percent for retail and almost 30 percent for wholesale. How can we picture these returns from now on? If there's a structural change in the business... if it's fintech competition... What's the reason for this change and how can we picture these profitability in the mid run?

[Milton]
Well, Thiago, thanks for the question and the compliments, always good to see you again here in our calls. Well, I think it's a great and legitimate question. Well, let's break it up a little. If we look at a longer series, I think that some of the material impacts happened in the course of the last few years. The first, which you mentioned, was the pandemic itself, which had a key effect, in that at that moment the bank had to forfeit a lot of revenue to ensure quality service and help our clients by implementing the much-spoken Travessia, a loan program intended to help our clients, both individuals and small businesses, to get through these difficult times. The second point as to do with some regulatory effects, in short, the cap on overdrafts certainly had an impact

because it structurally took away the profitability of the segment, and the third was the normalization and return of delinquency, as we've seen over the last few years. We spent two very favorable years in terms of defaults from individuals, which have risen steeply in recent years, especially in the cards segment, where our operation is very large, as you well know. We have a huge portfolio, we have a very large market share, which has caused the profitability of retail as a whole to come down to a lower level. Despite a slight improvement in the last quarters, we've noted... This quarter we have the benefit of a seasonal drop in costs and so profitability ends up going up a little. So, in retail, what we've been doing is... First, it's an operation that currently depends more on credit than it did in the past. We've always been very relevant in credit, but we've always had a capacity to generate revenue and fees quite proportional to the ability to generate revenues from credit, and it is an operation that has grown a lot over the last few years. It grew a lot more than the capacity to expand the fee business, which shows that this profitability is more consistent with return on credit than return on credit plus fees, which is the way the bank captures value. So, that was the big effect. When we look and dive deep into retail as a whole, we see the corporate retail operation doing very, very well, with a very strong profitability level, delinquency is way under control, as you have noted in the credit indicators... In Individuals, among clients we call accountholders, profitability was also very strong ... Depends on credit, it's true, but much more resilient in cost of credit in the ECL. And when we look at what we call open market, where we mainly operate cards... There are other segments as well, we operate auto loans, other products, and even payroll loans... We saw a more pressured profitability. So, we are working on repositioning the portfolio. We've also changed the portfolio profitability level by migrating to a more guaranteed portfolio, which also pulls profitability to a slightly lower level, but much more resilient in a more adverse scenario. So, cost of repositioning the portfolio, more middle/higher income clients relative to lower income, we also did it. As I've already told you, we had a quarter of the portfolio, a third of the portfolio in lower income; we cut more than 10 percentage points over the last years. I think that our management capacity also made us get through this moment better. So, looking at retail as a whole, we expect to continue working strongly in order to improve profitability. I don't think it will go back to past levels but there is undoubtedly still some room for improvement. And there is a very strong efficiency agenda, I mean, deep down, it's what we control and where we have to insist more and more is the efficiency agenda, especially in the Individual Clients segment, where we really have room to reposition the operation by looking at it as an integrated business unit. In effect, in wholesale, we've posted very strong profitability... Not forgetting that wholesale is a segment of investment banking, the front office, asset management, and the Latin American operation... It's all there within what we call wholesale. A very good profitability. It slightly dropped last quarter due to that specific ECL, but it's back to very sound levels. We expect a certain gradual normalization of the cost of credit, which should bring profitability to a lower level and also have a little less activity in investment banking and asset management itself in terms of performance fee, which should add some pressure to profitability, but even so, the consolidated figures are all within what we had expected, the best guidance expectation, to deliver guidance this year.

[Renato]
Thank you, Milton. We already have the second question here waiting for us, which is from Gustavo Schröder of Bradesco. What's up, Gustavo? Good morning and welcome.

[Gustavo Schröder]
Good morning. Good morning Lulia, good morning Milton. Thanks for the opportunity. In fact, congrats on your earnings, very strong across the board. I'd like to follow up a little on the end of Milton's answer regarding efficiency, I think that, in fact, it's an impressive number, an efficiency ratio below 40 percent, especially if we take into account the bank's size. It is a bank that has more or less 4,100 branches plus service points, almost 100,000 employees, employees as a whole. I've already asked Milton this question several times and I will come back to it. I think here, maybe, as I read it... I think it would be a game changer here for profitability. With all this heavy structure, the bank can work with an ROE between 20 and 21 percent and this efficiency ratio below 40 percent. Milton, based on our internal discussions, that is, on internal analyses, the pandemic period is over, and these were still based on what we thought everyone would need to do, what people's behavior would be after the pandemic... I think that we already have a clear picture here, a clear perception about how people are behaving. I'd like to know if there is room to reduce, once again, in a significant way, the number of branches and service points, and even in the size of, let's say, the support structure or staff... Or maybe even if there's room for an optimization that could bring profitability, which is already high, to another level. I'd like to hear you talk a little, again, about this subject since, in fact, I think that there is room here for a change in ROE, which is already high, but maybe a little bit... Change a little bit the level of this ROE, which is already very high.

[Milton]
Thank you Gustavo, nice to see you again. Thank you. I think it is very good that you always ask this question because it reminds us that there are a lot of employees watching this call, in addition to investors, and it always gives me the opportunity to talk with you and with the people in the bank about this matter, because this efficiency agenda is really a key agenda. It's true that we were able to achieve these efficiency levels by increasing the bank's operating leverage. There was clearly room for that. And

we've been reducing... If you look... You mentioned branches, right... Over the last few years, since 2015, when we actually started to make some downsizing adjustments, and we've already closed virtually 1,500 branches over time. Again, it is not an stand-alone goal, the actual goal is to serve our clients well. We believe a lot in the phygital model and we've been trying to develop the operation by getting to fully understand our channels' digitalization, our clients, our products, and above all the demand of the clients. There are some messages here. This quarter, we closed, if you look there, it shows the number, 55 branches. We reached the number of 415 digital branches, which is a completely different model, with much lower costs, where we serve our clients during extended hours, so this has been very important. And we've been working more and more with a business space concept, that leaves these branches lighter. We have what we call a satellite hub, with an operating center in some branches, but it makes these business spaces much lighter for us to serve, provide advisory, talk to our clients, talk about more sophisticated products. So, the care and balance that we always have to have here is because, when you structurally reduce the number of facilities, you lose a lot of topline because the phygital model is working and is very integrated. So, the care we have to take here is not to overshoot the target insofar as our clients still demand, our clients still visit, there is still a very important payment flow. Although the volume of payments has dropped... It grows nominally, although it has lost share in our branch network compared to other payments as a whole. So, we are still working very hard on efficiency, especially at a time of greater adversity. The more uncertain the future is, the more intense our efficiency agenda is here at the bank, and this is the pace we will be working at in 2023 and 2024. If this means having to make additional adjustments, we will make the adjustments that are necessary, insofar as serving our clients well and having a functioning integrated phygital model is, in short, our core challenge. So yes, there is room, yes, we will keep evolving, yes, we will remain dedicated to and focused on the efficiency agenda as a whole. You´ve touched on some of the levers... Certainly they are very important levers for us to continue to grow and deliver this level of efficiency. The topline is coming in very strong or has come in very strong over the years, which helps the ratio, but we always have to look forward and this balance has to be kept. If the topline is uncertain, the cost is certain, and we will continue to diving in this.

[Renato]
Thank you, Milton. For the third question, we already have here with us Rafael Frade from Citi. Good morning, Rafael. Welcome and thank you.

[Rafael Frade]
Good morning. Good morning, Milton, good morning, Renato. Thanks for having me. I have two questions here. One is related to credit cards. So, Milton, as you said, we are

witnessing stability in the credit quality of the portfolio as a whole but when we look at credit cards specifically, the EH continues to get marginally worse. So, if you could elaborate a little bit on how you are seeing this credit card dynamic... Despite all the actions that you have taken in the past, it's still a bit of a tail of the previous origination... And a second question regarding funding. I even think it's a little different from other players. You have reached a very crucial moment in funding. I'd like to understand how much of this is client demand, how much is your investment proposition, how much funding is driven by businesses; anyway, if you can, also talk a little bit about this dynamic.

[Milton]
Cool, Rafael, nice to see you again. Thanks for the question. Well, I will start talking a little bit about credit cards. Credit card... We remind you that our portfolio is very large; we hold almost 30 percent of market share when we take into account the share of Banco Carrefour as well, since we own a 49 percent stake of the bank. When we look at it as a whole, we see different segments with different performances. So, the performance with accountholders was very good from the standpoint of the ECL over time. In other words, a portfolio that endured less and a portfolio that we continue to grow. Not forgetting that the profile of our clients is primarily a middle/higher income profile. Of course we also have allocations in the lower-income bracket, but it's a more balanced portfolio from a credit quality standpoint. And then there are the other two portfolios, which are financial companies and what we call the open sea, where we work with brands directly with the consumer, without going through the bank's traditional channels. This was the most affected portfolio and we've been drastically reducing the number of new loans, especially in these two portfolios. For financial companies, we've included a partner value proposition, so you don't necessarily have the same credit quality, and you can sift through and find a slightly better quality... And in the open sea, obviously, the client that comes through a digital channel, the client that is looking and exclusively searching for credit, is where you have the most difficulties. So, we made a key adjustment to the portfolio: we reduced the number of new loans and made an overall review of our credit thresholds, and the exposure of the higher risk groups decreased significantly as well. All I can tell you is that at the end... Delays are short and what we've seen are significant improvements both in harvesting but also in performance. Now, it's a very large portfolio that still has some tail effect, no doubt about that. When we compare it with the figures released by the SFN, we see that we were very much in line in the short delay, but the long delay has unwrapped, right, in our financial system, it already starts at a much lower level, and we correct course at the tail faster than the system as a whole. Then, I think that this capacity and dynamism to act is what has made the difference. So, we are in a quite comfortable position; we've

already made the necessary tweaks, both in the thresholds and in harvesting, and we can already see a reduction even at a higher level. it's an operation that, from the standpoint of value creation, excluding accountholders, is undoubtedly below the cost of equity. And when you look at accountholders separately, the performance is different due to the cross-sell relationship and the behavior and history of the clients themselves. This is the core issue in the credit card business. And as regards funding, which was your second question... I think the bank has been able to perform very well in terms of deposits over the years, right... Not only in what we call traditional deposits, the bank has an open, multiproduct platform, a very competitive asset and a very solid distribution channel, and we've been able to do this, either as a result of the investment we've made in investment advisors or the potential and capacity that our private banking segment has to foster... We keep on gaining market share in the private banking segment. We've reached a 29 percent market share according to Anbima's data. it's the largest private, beyond a shadow of a doubt, in terms of share, and it keeps growing... This has created value for our funding capture. Of course, at time of greater adversity, there is also a flight to quality and the bank is always seen as a safe haven from an investment standpoint, because of our soundness, our earnings results, and ultimately the bank's capitalization. And with this interest rate hikes, there was a major decrease in funds and assets, what we call open platform, or balanced funds... The industry as a whole, the industry's fee performance as a whole, was very weak in the first quarter across the board, and at the current interest rate levels, proprietary and treasury products tend to grow more, that's why we witnessed this important inflow. There is some volatility... Every time funding comes from large corporations, large clients, it's more institutional funding, because... And we lost a little bit of deposits in the first quarter, less than what we've seen in the market, concentrated in particular in large corporations that end up either distributing dividends or making investments or consuming more cash due to a lower activity. So we've seen some volatility in funding in large corporations. Now, Individuals' funding is very, very resilient, and it's growing, and private outstanding in this case, has outperformed the market as well. So, I think the bank has managed to work very well on the liability side, with a lot of soundness, and our LCR and NSFR indicators are absolutely stable, very high, well above the regulatory thresholds. And if you look at our ratio of deposits from Individuals to the Individual portfolio, you will see that we have the best ratio of the market, practically one to one, funding from Individuals to portfolio, which shows, once again, our ability to attract quality deposits and provide excellent advice to our clients, always with from a consultant perspective, you know, the best investment for each client, not the best product for the bank. I usually joke here at the bank that we sell the benign COE, which is a COE with appropriate spreads, for the right client, the client who really needs and for whom it makes sense to invest in a certain product.

[Renato]
Perfect, thank you, Milton. All right, let's move on one, we have Rosman from BTG here with us. Hi Rosman, good morning and thank you.

[Rosman]
Oops, thank you! Congrats on the numbers. I just want to change the topic a little bit... I think the outcome was very clear, very clean. I think Milton mentioned that you are going to the New York conference, right, I came back recently from a visit to foreign investors and I think the general reading is that stocks are very cheap, right, but they are very worried about risks, which are difficult to estimate... I think this refers to the end of the interest on capital, VAT reform, potential change in revolving credit, among other changes. So, I'd like to get some of your thoughts. How do you see these risks play out? Do you think they are real? Are they being overblown? And how do you run the daily business of the bank while taking these risks into consideration, obviously? Thank you.

[Milton]
Thank you, Rosman! It's always good to have you here with us. Thanks for the questions. In fact, I think that what we don't do here at the bank is to ignore risk. So, we really face all the issues and challenges head on. It's true that there are some uncertainties and I think you touched on some of them. Cards are a recurring topic, that's not new... It has been on the agenda for a few years now, and most of the work we have been doing is to educate and show in a very didactic manner to all the stakeholders, how the credit card market works in Brazil. I remember, when I started working in cards, that I had a vision, when I sat in the cards chair I found out a world that many people don't know about, because it's a complex environment. The card ecosystem is complex. It has the role of the client, of the issuer, of the acquirer, of the card brand, and the merchant, and how this equation is worked out. I've got some data for you here, I mean... In terms of consumption in Brazil, credit cards account for 40 percent of consumption, 21 percent of GDP... At a GDP of R$10 trillion, the cards ecosystem hits R$2 trillion every year... But we have our own quirks. If you look, interest-free installment plans in Brazil account for 75 percent of the portfolio, while the interest-bearing portfolio, either through installment plans or revolving credit, is very small, it's a portfolio of 3.8, and in our case, 4 percent is revolving credit. So, when you look, you find that the portion that pays interest is considerably higher than the portion that doesn't pay interest. And as you are very well aware, the bank carries all the risk. I always think it's good to repeat this because it educates, homogenizes the market. So, when we compare with emerging economies and developed countries, we realize that our... The interest-free installment plan unbalance is very large in Brazil when compared. And I say this without any qualms,

because we have the acquirer, of which we own 100 percent, and we have the issuing bank, of which we also own 100 percent. Then, there is no conflict in defending model A or model B. I defend the technique and understanding the whole. So, I think that this has become increasingly clear to the market, to the stakeholders, whether this means the Central Bank, which knows a lot, or the Finance Minister himself... The Ministry of Finance has been participating in some debates and we are discussing alternatives and ways to develop the market. And of course, this does not depend on one party in isolation, this is a job that has to be done by several parties, and ideally, we could, through self-regulation, develop a model that is sustainable in the long term, by addressing the root cause of the problem, structurally, in a transitory manner. This is the agenda we believe in. I am not alone in defending this agenda; it's an agenda that is being addressed by several people sitting in a working group. We are moving forward; we will see how this unfolds but, again, always looking at the sustainability of this business. The interest on capital issue. it's an interpretation; there is still no clear proposal; we still haven't seen it. Our reading... We have recently heard some comments about a tax assessment notice that was represents in a material amount for a company... Our defense is always, if someone has done something wrong, and I don't know what the case is, I am not going to make a judgment about the cause. I think you have to relentlessly fight exaggerations or excesses of creativity. What we cannot forget is that interest on capital was created to replace the adjustment for inflation of balance sheets back in 1995, and its all purpose is to maintain, in an inflationary economy like ours, to protect the purchasing power parity, the economic value of one's equity. So, it does have a value. Now, remembering that our sector is the sector that has the highest taxation in the country. So, it does have a value. Now, remembering that our industry is the industry that has the highest taxation in Brazil. We pay 45 percent in taxes, right, including income tax and social contribution, and on top of that we pay revenue taxes on spreads, service tax, the tax on financial transactions when on lending. So, we have to be very careful with these possibly short-term agendas, because they compromise the growth of the loan portfolios and increase the spread in Brazil. And we really need to address the other side; how do we tackle the cost of the spread in Brazil, which is the big job. Then, the thing itself... VAT, which you mentioned, also has its own subtleties. Financial intermediation in Brazil is currently taxed at 4.65 percent. No other country in the world, or almost no other country in the world—maybe there is a rare exception—taxes financial intermediation. So, if we simply levy VAT on revenue from intermediation and revenue from services, we will increase taxation on the industry in a very significant way, especially by making credit more expensive for Individuals at a time when we are working to make it cheaper... There's the collateral framework, taxation itself... How do we work to reduce spreads and not increase spreads. I think the government is aware of this, we've seen the bills that are on the table, that are being worked on, but we still haven't seen what the final bill will be, exactly how it will handle these imbalances. And a third element is that I think there are still many tax asymmetries in the industry itself... Industry companies that end up paying a little less tax, others that don't pay social contribution, and there is a clear opportunity for adjustment, to level the playing field. The risks are on the table, I think you mentioned some of them, and we are working as best we can, in a constructive, close manner, to bring them to light, in particular to explain all the impacts... So that we can avoid an agenda that, in the short term, may make sense from a tax collection standpoint but that on the other hand generate long-term structural problems for the economy, for society, and especially for the population, who want to pay and have access to credit and more competitive credit. I think, therefore, that we are very active in these fields and if we have relevant news that we will tell you about.

[Renato]
Perfect. Thank you, Milton. Let's switch to English. We were talking about New York and foreign investors and the next question comes from Tito Labarta, Goldman Sachs. Hello Tito, good to see you, hope to see you soon in New York.

[Tito Labarta]
Hello Milton, hello Renato. Thank you for the call and taking my question in English. My question is on the financial margin. A little bit weak in the quarter, but still pretty strong overall, particularly the financial margin with clients, so, growing above the top end of your guidance for the full year, and volumes doing okay, spreads up a little bit in the quarter. While the financial margin with the market a bit weaker in the quarter. So, just to help us think about the rest of the year... How that should evolve also in the context of when you expect the rates to come down and what the impact could be on both of those lines? Thank you.

[Milton]
Ok, Good to see you again. Thank you very much for your question. I'll start talking about the clients, the financial margin with clients... What we have been seeing, as you know is a seasonal effect on the first quarter. We had less business days in the first quarter, so, this is expected. We still believe the guidance is feasible although we believe there are more challenges now than at the beginning of the year, when we released the guidance to the market. In our view, the challenges are bigger now. We still believe that the guidance was made to accommodate our performance in 2023, but with a downward trend. This is my initial first here. On the repricing of the bank's working capital, we still have room to do so and thus, as you can see in the way it was released on the MD&A, you will see that we are still running 400 basis points below the policy rate

SELIC. This repricing that is done over time on the interest rate should be done throughout the year.; therefore, we will still have some benefits. We have been working with more collateral lines, although we had some increase in the clean lines in the first quarter due to seasonal reasons as well. Also, of course, we see some products that are kept due to the regulation. That's true for overdrafts, payroll loans, social security... So, we have to keep an eye on that as it can put a little pressure on the spreads as well. This is our view. We still believe we can do that with the financial margin with client but, if I could choose a line, let's say geography... Even if it's still too early to say that, I believe that we have challenges ahead regarding the financial margin with clients but we are still confident with the guidance. And talking about the financial market, with the market we have been able to deliver good decent quarters. We are aware of the challenges. We had a very good quarter for trading, especially good for banking, which shows the way we have been dynamic in hedging our positions, our ALM, and our balance sheet mismatches; thus, we managed to do so while ensuring good margin levels throughout the quarters, and financing the hedging cost of capital ratios without a problem. We still believe that it's difficult to predict this line as you know but we also believe that the guidance is reasonable, and we should be able to deliver the margin with the market within the initially released guidance. We are seeing more challenges coming from the Latin-American operation, especially from Chile. As you know Itaú Chile just released its earnings and had a conference call as well and what they have shown there is that the financial margin with the market in the first quarter was very challenging, especially due to the low inflation environment that we have been seeing there. That shows that since banks track the UF, local inflation... whenever inflation is low, there are other benefits, but you end up suffering a bit more in term of financial margin with the market. So, Chile and that region should be more volatile and in Brazil, we still believe we can post decent quarters in the near future.

[Renato]
Thank you, Milton. Changing back to Portuguese now. The next question comes from Flávio Yoshida, from Bank of America. Flávio, good morning and welcome.

[Flávio Yoshida]
Good morning. Good morning, Milton, good morning, Lulia. My question has to do with risk appetite. We noticed that the NPL was stable after a period of hikes, still at a manageable level, but the portfolio growth here in Brazil, both for Individuals and Corporate, has been dropping. And we can also see that some lines... The lower risk for the Individuals portfolio has been more resilient, which I think is the case for mortgage and payroll loans. I'd like to understand how you think you can speed up this portfolio again. We know that the macro scenario is still very challenging, but I'd like to

understand a little bit more what signs you would like to see in order to accelerate this growth a little bit. Thank you.

[Milton]

Thank you Flavio, always good to see you. Thanks for the question. In effect, we have been working strongly in the portfolio by making changes in lending for some quarters now, due to a clearly more challenging scenario. I think that our data-driven capacity and our ability to anticipate and correctly manage risks in the most volatile cycles has been proven... I think it would be nice if we managed to stabilize the default rate for Individuals. If you look closely, our SMEs are at very manageable levels, and we expect a certain normalization, a certain neutrality over the next quarters, with very small changes in both ratios, which speaks volumes about the portfolio's quality. And more than this, don't forget that we have a mathematical pressure here, which is the denominator effect. As you have well put it, portfolios slow down growth. As we are looking at the backlog balance over the portfolio, as the portfolio grows less, you also have a mathematical pressure on the indicator; nevertheless, we are quite comfortable. The appetite... We are still very focused, we look a lot at engagement, we focus a lot on our mid- and higher-income clients, and also lower-income ones... But we have a very well-defined appetite and a very clear framework, right... For which product, which client, in which channel, in which way today is our appetite... So, the bank's driver continues to be growth, we will not stop growing, but we will grow less due to the challenges we can see ahead. I think this is the way we will work in the next quarters. We are growing, keeping our share, or gaining share in clients that we consider target clients from a risk appetite standpoint, and we are consciously losing share by design in clients that we believe are not consist with our appetite. This is portfolio management and this is true for all segments. But we cannot forget that demand has fallen significantly, so it's no longer just a question of appetite; the appetite is being adjusted for a few quarters. This fall comes basically from the standpoint of higher or lower demand. We are witnessing lower demand. Take the business clients, the middle market, our portfolio drops this quarter, which has a double impact. With lower demand, clients demand more and more working capital and fewer and shorter-term CAPEX facilities, and there is also the exchange rate fluctuation effect, which brings the portfolio to its lowest level if we factor in the exchange rate at yearend and the end of this quarter. As a result, demand has fallen between 20 and 25 percent on average in this corporate segment, and in the Individuals segment we've also made some adjustments. Then, we had the lower interest cap on payroll loans, which made us drop some clients because since the new 1.97 percent rate became unsustainable for some clients... There were some adjustments. We kept and still are cutting the production pace, both in auto and mortgage loans... It's still a growth, but much smaller. And why is that? Because we are seeing an increasing pressure on funding, rates going up, and clients naturally, at this price level, demanded less, so production has also dropped. So, it's a scenario in which the portfolios should grow less, which is our expectation for 2023. And we keep investing in and growing the share of our best clients. Since the bank's portfolio is very large, you will naturally feel the effect of the clients undergoing a transition and the fact that they are leaving us weighs against it, but we continue to grow, with the right appetite, in mid- and higher-income clients. Taking the necessary caution, but growing nonetheless in a sustainable, structured manner.

[Renato]
Perfect. Thank you, Milton. The next question comes from Daniel Vaz, from Credit Suisse. Good morning, Daniel, how are you? Welcome.

[Daniel Vaz]
How are you, Renato? Thanks for the opportunity to ask a question. Congrats on the results. Milton, in the last call I asked a question... I think you told me that you normally have a range of collateralized loans from 48 to 53 percent and you were closer to the higher end of that range. I'd like to understand now, from you, a bank with a slightly smoother CET1 capital position, the most strategic portion, if you have any prospects for the second half or next year, if you're thinking about increasing unsecured lending a bit, that is, the portion where you have a little more room to increase spreads, to put a little more risk on your balance sheet, you know? Therefore... Bearing in mind also the organic capital formation that you are achieving, how are you weighting this, both the portfolio collateralization and the risk increase at any given moment? Do you have any plans on how to do it? Thank you.

[Milton]
Thanks to you, Daniel, for the question. Basically, I don't think this is happening in practice to any extent, but we see a deceleration in collaterals, as you've mentioned, not far from the growth in recent years. So, this tends to cool down. We also see a decrease in clean loans, but just a slight rebalancing. So, in the first quarter, if you look at our personal loans line, you will see that it has grown. Overdrafts is a line that grew a lot, it had a seasonal effect due to the natural decrease because of the yearend bonuses in the last quarter, which ends up amortizing the more expensive facilities, but they'll come back... In terms of credit facilities, we produced a lot but selectively and with a lot quality by gaining share in the best ratings, which is the most important thing... And in the portfolio as a whole, we have been reducing the pace of collateralized loans. In terms of the mix of clients we call target clients, we have gained share and grown in a more balanced way. Now, demand has decreased because with the current interest rates, at

these levels, demand tends to be lower. It's natural… That's basically what the monetary policy is for, to slow the economy down. So, even mid- and higher-income clients end up taking less credit during times like these because interest rates are higher. They wait for better times to finance a property or to take out a credit facility, a personal loan, incur any kind of expense, etc. So, there's lower demand, without a doubt, but if there is an opportunity and demand, we have no problem in keep granting clean loans and growing these clients. What we will continue doing is adjusting the bank's balance sheet and adjusting the client mix by growing the share of better rated clients, typically middle and higher income, which is what has provided our management's soundness and sustainability over the years and has increasingly strengthened our brand. So, given the opportunity, we will, yes, grow. What we really need is to have demand and to understand that the mix is adequate for growth. So yes, given the opportunity, we will grow. What we really need is demand and to understand that the mix is appropriate for growth.

[Renato]
Perfect, thank you Milton. For the next question, we are going back to English because Jorge Cury, from Morgan Stanley, is here with us. Hi Jorge, welcome, good to see you and hope to see you tomorrow in New York.

[Jorge Cury]
Thank you all and congrats on the numbers. Hope to see you soon as well. I wanted to ask about the details on slide 16 of your presentation, where you have the return on equity by the different business lines. You're showing for the first quarter a 10.4 percent return on equity on the lending business. I wanted to get your perspective on how do you feel this number is relative to the potential Evidently, when SELIC is 13.75 percent, I'm guessing this is not a result you want to see. So, what are the different levers that are affecting this number and how do you see them going forward? I mean, in the longer run, what would be the fair, attractive return on equity for your lending business?

[Milton]
Thanks Jorge for your question. Hope to see New York in the coming days. So, my sense is the following: if we look at the historical series, we'll see that the return on equity in lending has always been very close to the cost of equity. This is why we have the sense that there was a huge growth in the bank's cost of equity in the last quarters. This has put a little bit more pressure in the return on equity level. And we also saw the level of delinquency growing, especially in the credit card portfolio.
This is the key impact when we look at lending in terms of return. If we disregard the

credit card portfolio and consider the other portfolios, we are generating return on equity above the cost of equity. This means that we have created value in lending, remind you that there is no cross-sell without credit. Sill on leverage, the most important part of our value creation has to do with lending and cross-sell, and the relationship with our clients in all segments. In other words, I'm talking about retail and wholesale clients in general. This is how we seen it. I believe, therefore, that coming close to the cost of equity would be reasonable because most of our value creation comes from services and also from trading, where historically we have been able to deliver a little bit more than cost of equity. This is my opinion, that we have to work toward the cost of equity and I think there is room to do so, especially when we normalized is delinquency. So we expect to have a better returns, chiefly from the credit card and auto loan portfolio. These two portfolios suffer a little bit more and, as a result, pushed the level of return down. So, with all the measures taken, the adjustments will not produce much in terms of results in the next quarter but I think it’s reasonable to expect cost of equity and return on credit to come in line soon. This is my best expectation and it would be the appetite to build would good, reasonable expectations for us. Thank you, Milton.

[Renato]
Thank you, let’s continue, back to Portuguese. We have with us, for our next question, Eduardo Nishio from Genial. Good morning, good to see you here.

[Eduardo Nishio]
Good morning, Milton, good morning Lulia, congrats on the results. Going back a little bit to Thiago's question, regarding the drop in retail ROE over time and seeing that you are making major changes in your business, my question is about the client vision versus the product vision, considering that you have already made this rollout in wholesale and, coincidentally, wholesale is having a great impact on the return, in term of profitability. I would like to know a little more about your vision, when you will roll out this client vision that you are working in retail. And I think that retail must be more complicated. You have many more products, and people, in other words, departments, must have incentives to maximize the product version nowadays. So, it must be very complicated for you to undo this and change to a client vision. I want to know, how are you doing in this initiative? What outcome do you expect? If you can really improve the top line, the profitability of your client vision. And when do you expect, if this all works out, to see this retail ROE going up again? Thank you.

[Milton]
Thanks, Eduardo good to see you. Thanks for the question. Well, this is our project, I won’t even call it a project, maybe it’s our biggest challenge today. We started the year

with the new structure already in place, with a defined leadership, a new, well-structured work layout, which we have called the new operating model. It's the so-called NMO. If you've heard someone talking about NMO, that's what it refers to. We do face huge challenges, in reorganizing the way we understand and handle client needs. Remember that historically all banks were built on a product vision. There's always been a vertical product: the credit card, the structure, the system, and then the system turned into the structure. What we have been able to do has a lot to do with two effects: first, the upgrading of the platform, which makes a huge difference. You become less of a hostage to the monoliths and, therefore, you are able to have well-structured journeys. And the agile working method allows you to have structured, organized communities to meet and understand client needs. Of course, this is easier said than done, the challenge is huge. If the people from the NMO are listening to me, they will say: wow, it's easy to talk. No, it's tricky. The teams are immersed and dedicated, steered by a very robust governance, follow-up, execution, and now we are in a performance stage, the conceptualization, preparation, and design stage is already over. And we have also advanced in the performance stage. Today we are already having discussions and meetings very focused on the stand-alone BUs. Instead of having a card meeting, we discuss the Individuals business unit, the Corporate business unit, the Retail business unit. We already have these universes well mapped out, a very clear P&L vision, structured levers, and clear challenges. We are reorganizing the teams, Progress has been good and now we want to actually reap the fruits. I think there are good opportunities, structurally speaking, as I was saying. I do not believe we will return to those levels of return we had in the past. The market has changed structurally, whether from the regulatory standpoint or from the standpoint of competition—there is more competition—and greater dependence on credit, which, as I was saying, ends up lowering the level of return a bit. But all business units are working hard to substantially improve the level of profitability, both for individual and corporate lines, and we have already managed to make a very important catch-up; we have been running at very high profitability levels in our retail business. So, the challenge is in the Individuals BU, let's put it this way, but with the right leadership, the right level of dedication, and maximum energy we can do it. You won't see this result in one quarter, but we expect to quickly start showing signs of what this change does. And, this change does not affect only profitability, it affects the NPS, client visibility, client experience, and we get a much more significant level of engagement and base growth, to the extent that the client feels their needs are being met, no longer on a product by product basis. And you are right, I think that adjusting incentives is a key part of this process and we have already made an important revision, and we will make other revisions so that everyone has the same incentive. Let this be the client and forget about maximizing each one's side, because the sum of the parts does not necessarily maximize the whole and does not maximize the client vision. This is the work we are doing. I think there is still a lot to do. We are just starting, but so far so good, the expectations are huge and the outcomes are already starting to show.

[Renato]
Perfect, thank you Milton. Next we have Henrique Navarro from Santander here with us. Hi Henrique, good morning and welcome.

[Henrique Navarro]
Good morning, everybody. Thank you for the opportunity and congrats on the results. As far as provisions are concerned, you are already starting the year, if we annualize it, at the bottom of the guidance. Is this the dynamic that we should consider for the rest of the year? Of perhaps working at the bottom of the forecast guidance? That's my question, thank you.

[Milton]
That's good Henrique, thank you. Thank you for your participation and your question. Look, it's still early to talk about geographies. Our view is that there are still important challenges over the next few quarters. In fact, if you annualize the first quarter, it naturally takes you to a level closer to the bottom. But we believe that by normalizing the wholesale market, which is part of the guidance, we may have some seasonality in the cost of credit. Our expectation is that it will continue to increase gradually, over the next few quarters—with no major event, obviously, nothing significant expected. But, as in wholesale, things could happen and we remain somewhat cautious because events may arise throughout the year and generate some kind of volatility in the cost of credit, which we have not seen in recent quarters. I think it is too early to say that this is the bottom of the guidance. We remain comfortable with the guidance and we do not foresee any problems in delivering the guidance. Now, cost of credit depends a lot on the outlook scenario, which we cautiously think it is welcome now. If there are any novelties, we will certainly convey then to you in the coming quarters.

[Renato]
Thank you, Milton. For the next question, I am not sure if Juan will speak in Portuguese or in English, but Juan, welcome, good to see you and welcome to our meeting. Feel free to ask your question in the language of your preference. Thanks.

[Juan]
Good morning, Milton, good morning, Renato, congrats on the numbers and thanks for the opportunity.

My question is about the acquiring business, the volume transacted there grew 21 percent year over year, probably way above the industry. I would like to know what are the growth drivers and what kind of clients are driving this growth, thanks.

[Milton]
That's a hybrid question, Juan. Thanks to you for the question, impeccable Portuguese. The acquisition business, well, I think that basically for some years we have been making adjusting the operation, a clear change in the service model, and value proposition, which are being followed by results. This growth has basically to do with, I mean, from a market share standpoint, we have been able to grow and gain share in the segments that we have actually targeted. Do not forget that in the acquiring segment, market share and profitability dynamics are inversely proportional. From the market share standpoint, large clients drive 2/3 of the market share, while smaller clients drive 2/3 of the profitability. Looking at share as a broader concept is not necessarily a good metric—I have been saying this for many years. We have been able to grow the market share in those target segments where we really think we have more opportunity and are actually profitable for us. And we have been super controlled in services to big companies, large corporations, so that we do not operate with a negative contribution margin. At the end of the day, if you do that, you don't have any big operating leverage challenge—you always have some, but it is small. But if the contribution margin is negative, as we see some players operating in some cases, you have no way of gaining operating leverage, and in the end what you are doing is renting market share and there is a cost for that, and that is not the play we believe in. What we have been able to do is to reprice it in a significant way. I think this interest rate hike has created a repricing challenge for the industry as a whole. Getting closer to the bank's channels is important and then the increasing advantage of having a wholly-owned acquirer is that we don't have to ask for permission or create mechanisms for greater cooperation. On the contrary, transactions are intrinsically connected so that we can extract the maximum value and ensure that the acquirer is increasingly a product in the value offering, and not a stand-alone business. And we have been able to introduce more and more financial products, penetrate the market in a relevant way, to grow penetration while helping our clients. This is the cheapest receivable they have to factor. So, our clients, when faced with a problem, end up demanding and we manage to penetrate all segments in an important way. So, this MDR repricing and this penetration of financial products and the repricing of packages, due to changes in interest rate, have caused our profitability to grow. Overall, our market share is practically stable, and in the segments where we have really focused on is where we have been able to gain market share. And, again, we are not going to get into a market share renting dispute. We have been very disciplined in pricing, competitive yes, serving our clients well. Client

satisfaction NPS is fundamental and the operation has evolved a lot in this sense. We are very pleased with the developments made, and this year is when the acquirer's earnings tend to be substantially higher than last year's earnings, once again making an important contribution to the bank's balance sheet as a whole.

[Renato]
Perfect, thank you Milton. Let's go, the next question is already here. The next question comes from Nicolas Reeve, from Bank of America. Hi, Nicolas good to see you and thanks for the question.

[Nicolas Reeve]
Hi, Renato and Milton thank you very much for taking my question. I have one question about your bonds, your hybrid bonds. You made a call for 618s and 6.5s in December and March, and at the time you clearly emphasized economics as the criteria for making the call. I wanted to ask if with the Tier-2s, with the 29s and with the 31s, given that the structure is a bit different from the 81s, you can only call once, if you don't call the bonds, they start losing capital treatment, given all of that, if the criteria to decide whether or not to call the Tier-2s is going to be a bit different from the 81s? Whatever you can say is going to be helpful. Thanks.

[Milton]
Thanks a lot Nicolas, good to see you again. When you look at the yield or the coupon that we reset on the 81s, we estimate something around the ballpark of 7.5 and 8 percent. If we had to access the market for a new 81, even though we know the market has changed, after the Credit Suisse event, we might consider a new, more challenging premium issue. But what we see now and considering current pricing, is that we could reset the bonds at 250 basis points below what a new issue would be. That is quite relevant, so we made the decision not to exercise the call and that will be the rationale. We don't just look at the price. We have to take a look at other situations, such as the level of capital of local or offshore alternatives. Our Tier 2 is the old Tier 2, so we no longer have a capital benefit, even though they still have a Tier 2 cost. So we are always updating our liabilities management and the ability to refinance bonds with a senior bond or even in the local market, depending on the yield. And we have the ability to issue locally or issue offshore depending on the yield. So it's a price discussion, taking into account that we don't have the benefit since they are old Tier 2. We no longer have the capital benefit and we are satisfied with our 81, with 1.5 which is the regulatory space that we have to issue 81s. This will be the rationale of the decision making to access the market. Currently our liquidity is very good and we might decide to repay or not, depending on the yield and the existing market possibilities at the right time.

[Renato]
Very clear, Milton. Thanks again. And next question is back to Portuguese because we have with us Renato Meloni, from Autônomos. Hi, Renato, good morning and welcome to our call. You are on mute, Renato.

[Renato Meloni]
Good morning, everyone, can you hear me now?

[Renato]
Now yes, thanks and good morning.

[Renato Meloni]
Good morning, thank you for the opportunity and I'd appreciate if you could talk a little bit more about what you expect for the corporate lending dynamics for the rest of the year. I mean, NPLs have increased a little bit but they are still at a very low level. Do you have an expectation that this will increase further? And also on the growth side, whether it's still going to be difficult to grow or you'll continue to drop. Thank you.

[Milton]
That's great, Renato. Thank you for the question. Starting with NPLs, in this specific segment of wholesale we look very little at the NPLs because it's misleading from a portfolio quality standpoint. We look a lot more at the coverage ratio because as we have a client-by-client assessment, we define the provisional rating level on name-by-name basis. So, 99 percent of the time we are provisioned before the event. The coverage index speaks better of the level of protection we have for the portfolio and the delay usually comes at the moment when you really haven't managed to find a solution, an alternative for the client, which ends up defaulting and naturally consumes the existing coverage. The cost of credit in this segment has been very low in recent years. We underwent a scenario of normalization in the other direction, after experiencing a very strong crisis in 2015, 2016 and several clients had to restructure and recovered. It's true that over those years we incurred a cost of credit but there were also reversals that brought it down to a very low level. What we have seen in general is the following: the portfolio remains very healthy in terms of quality. The portfolio management process that we built over the last few years has worked very well. I have given you some of the highlights of how we have deconcentrated the portfolio, how we have adjusted to the most sensitive industries by reducing our exposure and growing the portfolio. In other words, we have diversified over time and built a segment that has had a very strong performance over the last few years. We are expecting lower demand, which is

something that we have been noticing, but this is happening at the tail. On the other hand, it is worth showing that on the capital market side, the drop in origination was brutal year over year. The capital market is tightly closed. We see a good volume of liquidity in credit funds, more than 1 trillion Brazilian reais in these funds, but, with the price dynamic and the opening of interest rates, these funds have more cash than appetite. This means that the capital market today is closed. There's a lot of refinancing in many companies that will access the market throughout the year and that have their bonds, their debentures, their securities maturing and that do not necessarily have the capacity to roll them over. So, the bank balance sheet has never been so important in this sense. I think that on the one hand demand has fallen, while on the other hand there are opportunities to refinance and absorb capital market transactions, which will get to the balance sheet under good terms and with suitable levels of return. There will be good opportunities in industries that access less capital markets. These are the ones with less demand and we have been able to grow and improve the quality of the portfolio over the years. This is a challenge, but, again, I'm talking about a gradual normalization. Yes, we expect the cost of credit in this segment to grow and are aware that the previous levels are unsustainable. We already knew this, so we expect that this will happen over the next few years. But we are not foreseeing a very significant credit crunch, as the one experienced in 2015 and 2016. There are isolated cases or a judicial reorganization here and there, but in none of the cases that were disclosed to the market we either have no exposure or were well provisioned. Then, there is no specific concern in this regard. I think the portfolio is well protected and our forecasts are quite sound and our timing is also sound. If there is any kind of marginal deterioration, we will not wait for the delinquency to happen because we do not prepare the balance sheet on an incurred loss basis, we prepare it by expected loss. We will use our provisions up front in the event of any impairment scenario as we have always done here in the bank's balance sheet.

[Renato]
Thanks Milton. And for the next question we will go back to English because we have with us Gilberto Garcia from Barclays. Hi Gilberto, thank you for joining our call.

[Gilberto Garcia]
Hi, good morning and thank you for the opportunity. I had a question on credit cards. You have mentioned that your clients, because interest rates are high, are reducing their demand for credit. And some of your competitors have also said that they are going to try to refocus on higher income segments, which naturally means more competition for you. And ultimately, earning are also a matter of seasonality. Most years, the first quarter has a slight sequential decline in credit cards. Therefore, I was

wondering if you could tell us what the main drivers are in your view and are you seeing more competition or is it just back to normal in terms of seasonality? Thank you.

[Milton]

Thank you very much for your question, Gilberto. I think the first quarter is pure seasonality due to the large volume of transactions that happen in the last quarter, as you know. But yes, we have been making important adjustments to our portfolio. I've shown earlier that we were growing in number of clients, not only in volume but in credit card products that target affluent (higher income) client segment and we have been reducing volume in other segments. This is important information. This way we manage to maintain a good level of revenue, with some annual fees paid, which are less volatile to the TPV (total payment volume) of our portfolio. It's true that we were able to grow the portfolio with the more affluent (higher income) clients. We didn't see any difference at the competition level. It's the same. On the other hand, as a whole, I feel that credit card was the product of choice for many of the market entrants. We saw an overwhelming supply of credit cards and somehow many clients are currently overleveraged, with their income very much compromised in terms of value because of the amount of credit cards they have. Today it's very easy to have 3, 4, 5, 10 credit cards because you don't pay an annuity fee. It's a free option to have a credit card and there is a lack of financial education. So we are working hard to help our clients understand the challenges of having too many credit cards in their wallets. This is the phenomenon that we have observed. There is a big adjustment being made in the market and we have seen different levels of profitability in this operation. The balance sheets are public, but I can tell you that right now there's nobody making or creating value in a portfolio like the one you mentioned, because of the cost of equity. We will see a major reduction and, as I said, we are growing in the affluent portfolio, where we believe there are still a lot of opportunities for that, a lot of cross-sell to be done and we have been able to grow our portfolio, our client base, and increase credit card penetration by offering a quality product, that provides good UX (client experience), very focused on the NPS. That is our main goal.

We have achieved this and we don't see different competition. However, it might increase in the future, but we are ready for that, it's part of the game.

[Renato]

Thank you, Milton. Thank And the next question comes from Natalia Corfield from JP Morgan who is already with us on the screen.

[Natália Corfield]

Thank you for taking my question. I'm going to go back on the Tier 2 question, which

Nicholas had already raised. I believe he was referring specifically to Tier 2, which is Basel 3, which has a call scheduled for next year. If I'm not mistaken there's a call scheduled for November 2024 on the 2029 bond. So, I'd just like to know what you think about the call on this bond, given that it loses capital treatment after the call, gradually, true, but it does, and it only has one call which is next year's call.

[Milton]
That's great Natália. Well, about this specific bond, in fact, it enters the regressive period of capital utilization, after the exercise or non-exercise of the call. It's still a long time till it happens, so it's very difficult to say now whether or not we are going to exercise a November call next year. We will wait to see what the market conditions will be. Markets may change and we will look at local alternatives, foreign alternatives, we will look at the price, what would be to exercise the call, what kind of return it gives vis-a-vis a new transaction. The bank has always been very active in capital management and liquidity management and if we understand that the economics are in place and we can finance ourselves more efficiently, the exercising the call is something that can be done. If we think that the runoff is in fact keeping the level of capital and losing efficiency over time because the price is suitable, under these conditions I imagine that this bond will become senior over time. It will depend on market conditions. So it's very, very difficult to make any kind of assessment virtually a year and a half in advance. As we get closer to the call, at a future date, just like we did with the 81, we are going to be very transparent and we will say in advance what the direction and which path we are going to take.

[Renato]
Thank you, Milton. And now we go to the last question, from Carlos Gomez from HSBC. Hello Carlos, good that you were able to connect. I had your question via WhatsApp in case something happened last minute, but good to see you again. You have the floor.

[Carlos Gomez]
Thank you very much for taking the question. And since it is the last one, let's try to be a bit more optimistic. We are in the middle of the first year of this administration, and we've been talking about what happens in 2023, credit developments, a decline in lending. What do you expect for the next three-and-a-half years? What rate of growth do you think it is realistic for the bank and for the Brazilian credit industry? In other words, for the rest of the current administration? Thank you.

[Milton]
Thanks Carlos, that's a great last question. My view is that, as you know, the bank will be

100 years old next year and therefore we manage the bank regardless of the scenario and the challenges that we see in Brazil. We may have longer or shorter cycles. Our vision is that we still have challenges ahead. There is a lot going on in Congress with the discussions about the tax framework. It's important to understand this will be approved in Congress, something that is key for the future of Brazil and the debt sustainability. There is a lot of discussions in Congress about tax reform that can be very disruptive for Brazil, because after all, Brazilian companies need a simplified tax framework, they need to increase their productivity, and we need to talk about long-term growth.

So, we are still debating a structural agenda. We have to keep an eye on the discussions about how the tax reform will be handled in Congress and on the key indicators from then on. We believe that there is still room to work on expenses and also on revenues. There must be caution not to increase taxation in Brazil since 1/3 of GDP is taxed, so it's necessary to be very efficient and understand where to implement this to ensure that an environment where companies and individuals in Brazil can be successful is created. That's what we really hope for. So, we don't comment on the political buzz. I think that's part of the process. We have had a lot of conversations with the Minister of Finance and we are hopeful that this dialogue will bear fruit. We are aware of all the political challenges and the challenge of moving forward with a material agenda. We are here for the long run, It's hard to say what the next three and a half years will look like, but we are positive that we have the best conditions to succeed. Brazil is in a unique position geopolitically and we have a great opportunity to foster the agribusiness industry in Brazil, which has had excellent results. The energy industry offers many opportunities, and we have all the necessary assets, including the geographical position, to succeed. We cannot afford to miss this opportunity, but we have a lot of homework to do. Success will depend on our ability to coordinate and work as a united country to succeed. This is what we hope for and Banco Itaú will surely do its share to help Brazil and the government to succeed.

[Renato]

Perfect Milton, thank you very much for the presentation, thank you for the Q&A. I think this wraps things up. Thanks to the analysts as well. I think we have covered all the key points of our disclosure for the quarter and that's how we end our Q&A session. This also wraps up the video conference for the first quarter of 2023, again by thanking everybody for their participation and I'd like to extend again an invitation that you have already made, but reinforcing the invitation for our Itaú Day that will take place on June 15th at 9 am and I think that a QR code has now appeared on your screen and can use it to register and send questions for this year. So, you can do in advance. Those of you who saw the call and still have questions and want to ask them to our executives, you can send me the questions directly. And we are obviously waiting for you at our meeting on

June 15th. Milton, I'll give you back the floor so you can wrap up our conversation today, thank you.

[Milton]

Thank you, Renato. Thanks a lot for mediating the Q&A, your contribution, and all the work. And I'd like to thank everyone again for participating. I'm very honored and pleased with the outcome. I think there are considerable challenges ahead, you know them as well as I do, but I think our long-term vision and our capacity for consistency, risk management, and our value proposition, transformation, culture, digital transformation, and many of the elements we talk about so much have shown to be correct, and the outcomes prove it. So, I reinforce Renato's invitation, Itaú Day, on the 15th, where we will, in fact, be able to talk about a lot of other things, about digital transformation, about cultural transformation, about business, without getting into the nitty gritty of numbers, this more P&L vision that we brought this time, a bit more executive material. So, I count on your presence. It was a great pleasure to be able to share our journey and our agenda, and feedback is always welcome. As we say, Itaú is made with you. So, this goes for the investors, clients, for all the stakeholders. All feedback is always welcome, and with a lot of groundwork, humility, and caution we will continue to work hard here to deliver sound, consistent results. That's all, everybody, thank you very much, all the best to you. See you all at the conference in the coming days and for those of you who will only see us at the Itaú Day until June 15th, we will be here again. Best regards.