4Q22 Results

[Renato] Hello. Good morning, everyone!

I'm 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 fourth quarter of 2022, which we are broadcasting directly from our office here on Avenida Faria Lima, in São Paulo.

This event will be divided into two parts. In the first part, Mr. Milton Maluhy Filho will explain our performance and earnings for the fourth quarter of 2022. Next, we'll have a Q&A session where analysts and investors will be able to interact with us directly.

Now, I'd like to give some instructions to make the most of this meeting today.

For those of you who are accessing this via our website, there are three options for audio on the screen: all content in Portuguese, all content in English or the original audio. In the first two options, we will have simultaneous translation. To choose your option, all you have to do is click on the flag on the top left of your screen.

Questions can also be forwarded via WhatsApp. To do so, just click on the button on the screen on the website or simply send a message to the number +55 11 94552-0694.

The presentation we'll make today is available for download on the hotsite screen and, also, as usual, on our Investor Relations website.

I now give the floor to Mr. Maluhy who will begin the presentation on the earnings and then I'll come back with you to moderate the Q&A session.
Milton, go ahead!

[Milton] Thank you, Renato!

Welcome to our fourth quarter of 2022 earnings presentation. I'll also talk about the 2023 Guidance.

I'll go straight to the figures so that I can bring you some more information.

Firstly, our earnings in the quarter totaled BRL7.7 billion, a drop of 5.1% from the previous quarter, and BRL7 billion in Brazil, which also dropped 5.7% from the previous quarter.

A very important topic I'd like to raise at the very beginning, so that it can be very clear to you, is the subsequent event: the credit case that was announced after December. In our balance sheet for 2022, there was an increase in provision for loan losses to cover 100% of this exposure. Therefore, there won't be any negative impact in 2023, only positive impact from a possible credit recovery. I wanted to make this clear at the very beginning. I'll comment during the presentation on some adjustments to make it clear how our performance would have been without this credit event, but it's very important to highlight that the exposure in our balance sheet is 100% covered.

If it weren't for this effect, our consolidated earnings would have been BRL8.4 billion and BRL7.7 billion in Brazil. Speaking of profitability, already considering the provision for loan losses to cover 100% of the credit exposure caused by the subsequent event, we posted a consolidated return on equity of 19.3%, a drop of 1.7 percentage points, and of 19.7% in Brazil. If it weren't for the subsequent event, our consolidated ROE for the fourth quarter would have been 21% and 21.7% in Brazil. Another very robust quarter and very significant from the performance standpoint.

To continue on the subject of the subsequent event, I'll jump to the cost of credit. At the end of the quarter, our cost of credit was BRL9.8 billion and, if it weren't for the subsequent event, it would have been BRL8.5 billion. Therefore, you may note a difference of BRL1.3 billion, which was recorded in our P&L, and the difference for the total exposure was recorded in our balance sheet; for the subsequent event, it was recorded as additional provision for loan losses. We always carry out regular reviews of the bank's additional provision for loan losses and we used a portion of this balance to complement the provision for the subsequent event. Therefore, the provision for loan losses covers 100% of the exposure. Part of it has already been recorded in the P&L, in the amount of BRL1.3 billion, and part of it is recorded in the additional provision for loan losses. And if there is a deterioration of this case, naturally, it would consume the additional provision for loan losses that is associated with the event.

In the financial margin with clients, there was growth of 3.6% in the consolidated figure, reaching BRL24.2 billion, and in Brazil it totaled BRL21.2 billion, which represents an increase quarter over quarter of 2.6%. Speaking of the NPL for over 90 days, once again, we are very consistent with what we have been telling you for many quarters now. We can see a slight increase of 0.1 percentage points in the consolidated figure and 0.2 percentage points in Brazil.

We posted another positive result for the efficiency ratio, reaching 41.2% in the consolidated figure and 39.1% in Brazil, a drop in both ratios from the previous quarter.

Now, I'll talk a little about the credit portfolio. We have been reducing the pace of growth of the portfolio throughout the second semester of 2022, and you'll see that in the numbers. Our credit portfolio for individuals grew 3.7% in the quarter and 20% in the year. The SME portfolio grew 2.4% in the quarter and 10% in the year. We reached BRL918 billion in the portfolio in Brazil and BRL1.1 trillion in the consolidated portfolio, an annual growth of 11% and of 14% if adjusted by the foreign exchange variation.

In the next slides, I'll present the results compared to the 2022 Guidance disclosed. For the loan portfolio, the growth expectation was between 15.5% and 17.5% but the result was below the low range of the guidance. We have already been telling you that the bank has been very carefully making adjustments to the risk appetite in view of the current macro scenario. I'm very comfortable with having delivered a figure that is below the Guidance because of this.

Now, deep diving into the portfolios: the collateralized products share in the individual portfolio grew from 47.7% in 2019 to 52.8% in 2022, so that we have a more guaranteed mix. Financed credit card portfolio and overdrafts, two lines that have a significant impact on the margin, dropped in the quarter as the result of an active risk management. On the other hand, this naturally has an impact on the margin of the product mix. The margin with clients posted growth of 3.6% in the quarter, up BRL800 million, of which BRL600 million was the core increase and BRL200 million was related to the working capital impact allocated to the margin with clients.

As I previously mentioned, the product mix had a slight negative impact of BRL100 million. On the other hand, the average volume, the spreads, and the effects of the operations in Latin America had positive impacts, raising our margin to BRL21.5 billion.

We reached a consolidated annualized average margin of 8.7% and a risk-adjusted annualized average margin of 5.6%, excluding the subsequent event. If we include the subsequent event, it was 5.1%. In Brazil, we were able to maintain the annualized average margin at 9.4% and a risk-adjusted annualized average margin at 5.9%, excluding the subsequent event. But if we take the event into account, it reached 5.3%. We expected consolidated financial margin with clients to grow between 25% and 27% and we delivered it very close to the top range of the guidance, which is good news.

Now I'll talk about the financial margin with the market. We should remember that 2022 was a very challenging year for this line, mainly due to interest rate rises, volatility, and the fact we no longer have the positive effects of the overhedge strategy that we had until 2021. But nevertheless, we managed to deliver a positive margin again, as margin with the market reached BRL700 million, slightly outperforming the last two quarters, already considering the capital hedge cost of roughly BRL500 million per quarter. So, we recorded another robust quarter as we performed well in both Latin America and Brazil.

We expected a major reduction in margin with the market as our 2022 Guidance for this line was between BRL1 billion and BRL 3 billion. The good news was that we reached the top of the Guidance; although we can clearly see a negative impact compared to 2021 result, for all the reasons I've mentioned. Notably due to the overhedge strategy and to the impact of the capital hedge implemented in 2022 which added approximately BRL2 billion in costs this year. Capital hedge was the major responsible for the drop of the margin with the market in 2022.

Moving to commissions and fees and results from insurance operations: we performed well in credit cards, both in issuing and acquiring activities, and recorded a 4.2% increase. We also performed well in asset management, as we recognize our funds performance fee in the second and fourth quarters. That is accounted for on a cash basis, as required by the Central Bank. We recorded the performance fee in the fourth quarter, and this is why we posted increased earnings quarter-on-quarter. We also posted dramatic increases in insurance operations, both in quarter-on-quarter and year-on-year comparisons.

We expected growth between 7% and 9% in 2022 commissions and insurance results guidance, and we ended up at 7.8%, which means we were very close to the Guidance mid-point. Regarding asset management, our funding balance, whether through own or third-party products through the open platform, was up 8.7% year-on-year. The most important thing is that we can provide better products for our clients because of our complete portfolio. Please, bear in mind: focus on client centricity. We have performed really well in own products due to a greater demand for fixed-income products, which are deemed safer and less volatile. For this reason, the open platform output ended up falling in the period.

Acquiring transaction volume recorded a significant increase of 17.9% from 2021, with revenues growing more than 2 times than the volume of transactions, which means we've been performing really well due to the right mix of products and services, delivering real value and growth, with NPS of acquiring activities improving dramatically.

I've been emphasizing the growth of the insurance business in the previous quarters, and the premiums earned were up 19.9% year-on-year. Really noteworthy is that the core of insurance operations result has grown nearly 50%. We believe this segment is due to keep on growing.

Now let's move to credit quality. First, we noted that delinquency was at an acceptable rate as measured by the ratio of 15-90 days overdue NPL. This is very important piece of information. Last quarter I mentioned that this rise in the Latin America ratio had been due to a specific corporate case that would be regularized and would not be transferred to NPL 90 days. As you can see, this was rightly done. In Brazil and in total, we recorded a slight increase of 20 and 10 basis points, respectively, as I commented back at the first slide. Focusing on transparency, we recorded the impact of BRL100 million from the sale of the active portfolio, of 0.02 percentage points at the NPL rate. That represents a very small amount but underlines the way how we value the transparency of any sales of our portfolio to the market.

In Brazil, delinquency as measured by ratio of 15-90 days overdue NPL is extremely acceptable for individuals and was flat compared to the previous quarter. The NPL ratio for SMEs recorded a slight rise. The ratio for the corporate segment is not a good indicator, since it usually concerns events rather than delayed payments. You must remember that last quarter I mentioned that I expected NPL to go up in the fourth quarter for the individuals' portfolio as we had noted in third quarter, in line with the normalization process for this indicator. We recorded 30 basis points increase in the third and 20 basis points increase in the fourth quarter.

I'd also told you that this normalization process would go until the first quarter of 2023. This expectation is reaffirmed, which underlines our strength, risk management and ability to manage the cost of credit in more troubled times. Challenges surely lie ahead, but I believe the bank has been successful so far in walking through such tough scenarios.

NPL for SMEs in Brazil recorded a slight increase of 10 basis points and it poses no specific concern for us.

The cost of credit-to-portfolio ratio closed the quarter at 3.5%. If it were adjusted by the subsequent event concerning the specific credit, it would be 3%, very close to previous periods and even below pre-pandemic results.

Cost of credit increased to BRL 8.5 billion in the fourth quarter from BRL 8 billion in the third quarter, and, considering the subsequent event, it reached BRL9.8 billion.

Loan coverage ratio in the wholesale segment reached 1857%, precisely due to the provision for loan losses done in the fourth quarter to cover 100% of the exposure on the specific corporate case that entered into judicial reorganization.

Thus, if the event occurs to the extent of the recognized provision, the coverage ratio will surely suffer.

Cost of credit would have closed the year at BRL 31 billion if we excluded that subsequent event, that is, at the top of the 2022 Guidance. To wrap it up: the amount we exceeded the 2022 guidance of R$1.3 billion is related to the specific case of this retailer, that is the subsequent event occurred in January 2023.

Moving now to OPEX. The non-interest expenses were up 6.7% year-on-year and 4.5% in the quarter, the latter due to its seasonality. We came close to the top of the Guidance Brazil and within the consolidated Guidance. The efficiency ratio reached 39.1% in Brazil and 41.2% in the consolidated figures.
Year-on-year, the investments we made in platforms and new business to improve the client experience were the main driver of non-interest expenses increase.
Our core cost was up 0.7%, or BRL 300 million. The inflation in the period was almost certainly above 6% for banks, impacted by the effects of the collective bargaining from previous years at much higher levels.
We've been able to make huge investments to build the future of the bank, while growing slightly above IPCA inflation index, but below inflation for banks.

Good news for the capital ratio. We made headway in the capital base for one more quarter, by reaching 11.9%. If we disregarded the subsequent event, our capital ratio would be at 12%. Our Tier 1 closed at 13.5%, that is, 50 basis points above our risk appetite. As a reminder, our risk appetite is 11.5% at CET1 and 1.5% at AT1.
So, here we are again accumulating capital in the quarter. We've been successful in increasing earnings, generating enough capital to invest and grow our business and portfolios, and also evolving the bank's capital base. So, this is good news and one more positive quarter.

I've been talking about earnings all the time, but the pillars underlying our earnings, the ones I want to highlight here, are: (i) how our culture is engaging our employees, whom we call "itubers" and (ii) how digital transformation is happening and the impact on what is most important for us, the reason for our existence, our clients, or in other words, our client-centricity agenda.

I'll start talking about culture. First, we reached an employer net promoter score of 88 points, and this is the bank's record high E-NPS. And I always say that engaged and happy employees deliver higher client satisfaction.
We reached almost 19,000 people who are already working in a community or tribe model. There are 2,030 squads in the bank's operation.

I'd like to share with you, very carefully and humbly, some awards and recognition we got in 2022. People ask me how we measure cultural transformation and employees' engagement and I think that these recognitions are the answer.
We are the first bank to top the Great Place to Work ranking with over 10,000 employees. So, this is the first time a bank achieves this position of the best company in Brazil according to the Great Place to Work ranking.
We were ranked first in the Banks category of the Valor Award. This was the first time Valor magazine introduced a Banks category.

We were ranked first in the Valor Award – Career – The Best in Management.

We also ranked first in the Top Companies of Linkedin for the third consecutive year.

We were elected the most innovative Bank in Brazil by Valor Innovation.

We were ranked first in the international category of the Best Workplaces for Innovators Award, and eighth in the global ranking.

So, I always look at these recognitions and feel delighted. I think we've been making important progress, but also in a humble way, because things are still difficult and we need to keep on performing on a very sustainable basis, focusing on the coming quarters.

The second pillar that is very important to our journey is digital transformation.
The system modernization and focus on quick problem-solving brings higher value-creation to our clients and competitiveness in our business.

I told you that 2022 was a key milestone for the bank digital transformation. We managed to reach our goal of 50% of our platforms modernized with state-of-the-art technology, and totally decomponentized.

As regards the competitiveness of our platforms, we reached the modernization of 70% of what we understand is relevant to the client journey. So, rather than looking at the absolute figure of 50%, I prefer to look at this evolution, because it's what impacts the UX (user experience).

Speed has increased and our ability to bring in an agile methodology, renewed digital platforms, a new culture and client-centricity to production has allowed us to quickly increase our ability to deliver products, correct mistakes and deliver new features to production. We increased this speed by 756%.

Also very important is reducing incidents, because incidents become issues for our clients. So, when we look at the period beginning back in 2018, the number of incidents in our platforms fell over 70%, especially driven by all the work done and the journey we've undertaken.

Moving to client-centricity, I'll share some figures we usually don't disclose, but I think it's a good moment for accountability, since we are wrapping-up 2022 and beginning 2023.

Client centricity, as measured by net promoter score, is very important to our day-to-day activities. The bank's global NPS has increased 20 percentage points since 2018.
We significantly cut back the gap we used to have compared to our peers that were operating with higher NPS levels. That was our goal and we are succeeding in delivering it.

We can see that most of our business is at record high levels, which evidences the engagement, the focus, the client centricity and the digitalization actually happening.
Almost 60% of our business reached what we call an excellence zone, with NPS over 70 points, such as the Personnalité segment, Top Business and Business, which are two retail

corporate segments, Itaú BBA, Uniclass segment, Private segment, credit card business, vehicle financing business. Rather than showcasing the evolution of this business and of the products portfolio it's better to set the goal of closing 2023 in the excellence zone, that is, reaching a NPS over 70 points.

This is our goal for 2023 on a global scale: all our weighted business must reach an NPS of around 70 points by the end of the year. This is the goal and we really believe we'll be able to get there based on everything we discussed today. Let's strive to go after it and reach for all these ratios. This is the great evolution for the client agenda.

Moving forward to 2023, I'll start with the expectations for the macro scenario. The main highlights are:

GDP is expected to grow by 0.9%, but I believe we have a positive bias. This forecast will likely be reviewed in the short term, with an upward trend.

Regarding the SELIC rate, the best expectation today is a fall towards 12.5% by the end of 2023. It naturally depends on decisions about the fiscal framework and inflation itself, which will have to be closely monitored.

Inflation will be well in line with the rate of 5.8% in 2022.

We expect employment rates to slightly rise to 8.5% from 8.2%.

Foreign exchange will post a slight devaluation of the Brazilian Real to BRL5.5/US$.

So, moving to 2023 guidance, we expect the credit portfolio will increase between 6% and 9%, a more modest growth compared to what we've delivered in previous years. This is fully associated with the challenging scenario we are experiencing. That's why we choose to be more cautious in granting credit, a strategy we've been applying in the last quarters.

The financial margin with clients is expected to grow between 13.5% and 16.5%.

Margin with the market is expected to range between BRL2 billion and BRL4 billion. We believe we'll manage to deliver positive margins for another year, despite the challenging scenario. With the capital hedge cost already included in these figures, there is a significant impact of approximately BRL2 billion, depending on the interest rate differential.

Cost of credit is expected to range between BRL36.5 billion and BRL40.5 billion.

Commissions, fees and revenues from insurance operations are expected to increase between 7.5% and 10.5%.
Non-interest expenses are expected to rise between 5% and 9%. It's crucial to say that we expect the core cost not to rise over 2%. We must remember that inflation measured by IPCA has been around 5.8%, and I always say that inflation for banks is usually higher, due to the collective bargaining that brings in the inflation inertia from previous years.
So we've set the goal of not letting the core costs rise over 2%. The whole difference between 5% and 9% lies on the investments in the bank's digital transformation, in modernization, in business, in client-centricity and in customer experience.

And last but not least, the effective tax rate is expected to range between 28.5% and 31.5%.

That`s all I wanted to share on 2022 earnings and 2023 Guidance. I'll be joining Renato for the Q&A session to address your questions.

Thank you very much for joining us and I`ll see you in a while. Take care.

Q&A

Hello again, everyone. It's that time of the quarter again and Milton is already here to kick off the Q&A session.
Remember that the session will be bilingual, so people may ask in English or Portuguese and we'll answer in the same language of the question.
For those who need simultaneous translation, the options are on the screen for translation from English into Portuguese and vice-versa.
Also have in mind that you may also send questions via WhatsApp and the number is (55 11) 94552-0694. Well, we have a question coming already. Milton, let's start, shall we? Sure.
The first question comes from Domingos Falavina, of JP Morgan. Hello there, Dom, good morning and welcome to the fourth quarter's call.

Good morning, Milton! Good morning, Lulia! Thank you for the opportunity. Two quick questions, both about provisions. The first one is how your additional provision works. Looking at the balance sheet, it seems to be R$17 billion. How much of this amount is allocated to one given segment, such as credit card, or to a specific sector of the economy, and how much is totally free for other usages? Looking at the balance sheet, we could see that approximately R$2 billion was used. R$1.3 billion was recorded in the result from the exposure of R$3.4 billion, so it seems that R$2 billion came from the additional provision. I'd like to understand how much excess amount there is in this provision.
The second question is about how to reconcile a guidance to increase the allowance for doubtful accounts by 20%+ on a year-on-year basis with a portfolio growth by nearly 10%. What I mean is how can the allowance for doubtful accounts increase twice as much as the portfolio, when the bank advocates risk reduction and a provision for expected loss to be recognized in advance? Would this worsen the risk? Would the bank be more conservative in the guidance? These are my two question, thank you.

Thank you for the question, Domingos. Nice to see you again. Let me start by the additional provisions. Additional provisions have been recorded in the balance sheet for a long time, but we make periodic reviews, I'd say monthly reviews, of the volume of these provisions, always looking at the expected loss portfolios. Based on its many years of practice, the bank is very cautious and conservative with the level of provisioning recorded in the balance sheet. So, we have increased provisions over these prior quarters, particularly during the COVID pandemic in 2020. These provisions are being allocated to specific cases where we have some concern about and understand that the provisioning level must be higher.
Part of this provisioning concerns the effect of the expected loss, which is included in the additional provision, and the other part is allocated for specific cases, which can be a segment, a company, a business or other adjustment the bank considers necessary. At least once a month, we review these provisions case-by-case, to check if the future recovery expectation improved or worsened. When we made the decision to recognize a full provision for a specific case, which we call a subsequent event, we looked at the balance sheet. First

and foremost, to understand if there would be any “surplus” due to changes in some specific case within our additional provisions. We then decided for the full provisioning. We recognized R$1.3 billion in profit or loss and a part was allocated to an additional provision. We rated this specific case “H”, following the Central Bank ranking, which is thus automatically reviewed. We usually don’t disclose specific cases, but it was widely disclosed in the press and there is a court-supervised reorganization with our credit in the records. Our total exposure is R$2.8 billion. So, to simplify the math here, R$1.3 billion was directly allocated to profit or loss and R$1.5 billion was recognized as a provision, as it’s not about the credit risk of the operation only, but also the exposure to derivatives, sureties... which complete the total exposure. We usually don’t provide details of specific cases, but this is a public case and information is already being unveiled.

We have a lower exposure here, where R$1.5 billion is allocated to the additional provision. We reviewed it and noted there was an opportunity for a specific allocation, and we clearly stated that it was for such specific case in our financial statements. Therefore, if the case worsens and we understand to be appropriate, then we’ll naturally record a higher provision for loan losses for the specific case and the immediate use of the provision that is being allocated.

I make the point to underline this: there will be no negative effect ahead. 100% was captured in the fourth quarter of 2022 and we’ll make any required changes as we have further information.

About your second question, on guidance, there are two major elements to consider. First, looking at the retail portfolio for individuals, we see NPL became stable in the first quarter of 2023 already. This is our best expectation today.

Our NPL-90 increased by 0.2 percentage points in the last quarter. The idea is that its normalization will take place in the first quarter of 2023.The portfolio is increasing close to 10% .We did not break it down into segments. So, just to give you an idea, our expectation is that both individual and corporate segments will perform at similar levels.

If we annualize the figures of the fourth quarter of 2022, since we operate based on expected loss and therefore we are always anticipating the cycle of the new production, it’s natural that this provision increases around 13% to 14% in 2023 compared with a portfolio that may increase close to 10%.This is the difference, which is quite insignificant.

Let’s see another major element: since we’ve been normalizing the portfolios, notably the retail portfolio, for two years, we began to notice a gradual normalization of the wholesale portfolio and a more challenging scenario ahead, based on the level of interest rates in the economy. This issue places more pressure on companies, on the finance cost. A company’s leverage level must be lower, depending on what will structurally happen to this interest rate on the long term. As a result, we were very cautious by estimating a little higher cost of credit for 2023, particularly in the wholesale portfolio, which comes from very low levels. This is measured by the NPL 90, although it’s not the best indicator, especially for middle-market and large companies, but we can see that the delinquency level is immaterial, that is, based on the higher cost of credit/portfolio ratio that we foresee for 2023.We thought it would be more prudent, given the scenario, prospects and the size of the portfolio, to recognize a higher provision over 2023.

Perfect, thank you Milton. Next is Thiago Batista, of UBS. Hello there, Thiago! Good morning.

Good. Good morning to you all. Congrats for the numbers and for the guidance, even more important. The bank’s Tier 1 capital is now back to 13.5% . If we assumed a ROE of 20% and a RWA increase of 7.5%, which would be in line with the guidance for portfolio growth, the bank could pay more dividends, with a payout of approximately 60%, and still keep Tier 1capital steady at 13.5%.My question is: are we back in the scenario where a bank will pay the whole capital in excess of this Tier 1 capital at 13.5%? And just to follow up Domingos' question, what has changed in the bank's processes after the Americanas case? What are the developments?

Thiago, thank you. Nice to see you again. Thank you for the question. We have systematically and consistently managed to increase the level of capital. You remember that our Capital Tier 1 fell short of the ideal standard in early 2020, with the provisions recognized for COVID, and since then we have bounced back. We implemented the hedging policy on capital ratio, and the bank has consistently creating value, financing its activities and increasing the bank's capitalization as measured by CET1.
Looking ahead, we do not anticipate an increase in payout in terms of percentage. We are running with a payout close to 27%, and the maximization of interest on capital explains a payout slightly over the minimum. We expect, looking ahead, a very similar level of payout. Yes, we have grown the bank's earnings and increased the amounts of dividend/shares. This has been our work.
Although we've managed to recover capital, which is indeed good news, we foresee some challenges looming ahead. These are typically two: new credit risk weights in place, which based on our first view, can be positive for capital. However, the other, which is under public consultation, is capital for operational risk. There is a way to allocate operational risk currently under review, which may somehow impact the bank's capital ratio. It's early to anticipate anything, as this measure is under public consultation still, and many debates are being held with the regulatory body. We have noticed that several countries are postponing the implementation of the Basel standards. The new operational risk allocation is expected to be implemented in January 2024, but there is a chance it will be postponed to 2025, based on what we've witnessed in other geographies. The bank is already recording a provision for this capital, as we look ahead and don't want to have to pay higher dividends knowing that we may have capital consumed due to such event.
This issue is not so material to reduce our appetite level. We continue to work to recover capital, but it can have an impact, and we will be monitoring it in the coming quarters. So, for the time being, the payout policy will not change. We continue to conform to that dividend policy previously disclosed. There's a trend to continue increasing capital, but for this event, and this will depend on a specific regulation by the Central Bank. We still don't have all the details of this regulation and how it will turn out after the public consultation.
About the specific case, that is, the corporate case disclosed in the subsequent event, of course it had an impact. Every credit event brings lessons to be learned, whether arising from a fraud or an unexpected scenario worsening. I would say that it's part of the game. It's an expensive lesson to learn, without a doubt, given the amounts involved, but it always brings some lessons whatsoever. In such a situation we always carry out a full review of the processes, recall the storyline, understand what could have been done, when and how. The critical message is that, in this period, particularly in the second half of 2022, we reduced the exposure in the specific case by R$1 billion. There was already some distress about certain information, but it's difficult to evidence or imagine that a fraud was being committed at such a remarkable company. Only to picture how much effort was expended, as loans became nonperforming we didn't raise new transactions for a number of reasons that are irrelevant to talk about now. So, the answer is there is always a lesson to be learned. What is important to tell you is that, in our view, from what we could found out, it was a one-off case, a fraud. We reviewed the portfolio, as well as many companies taking advantage of

debtor risk operations, not only at the bank but on the market as a whole, and we didn't identify any anomalies. In reality, with the information we have now available, it seems to be a one-off case, which, without a doubt, brings important lessons. This is what we try to do whenever we experience in such a truly dismal event.

Great. So let's move to the third question. How're doing, Gustavo? Good morning. Welcome to the call.

Good morning, Milton! Good morning, Lulia. Thank you for this opportunity. Congrats for the earnings, particularly given the scenario. I'd like to shift the subject and address commissions and fees. You provided a higher guidance, at least as we understand it, if we annualize the figures of the end of 2022, which were slightly lower than those posted by the bank over the year. In particular, if we look at the breakdown expected for 2023: probably a slowdown in total payment volume (TPV) would impact the acquiring and card issuing activities, and put pressure on asset management and investment banking, given the increasingly challenging scenario. So, I'd like to understand how we can look at this end of 2022, increasingly challenging for commissions and fees, with a relatively lower growth, whereas you bring an expectation well above the 4Q22 annualized for 2023.Is it about the insurance line offset? Last but not least, please can you detail the breakdown of this guidance? IMO, it's relatively emphatic given the end of 2022.

Thank you, Gustavo, for the question and for the praise. We challenge ourselves at all times. I like to say that we started 2023 better than we finished 2022, certainly better than we started 2022. Therefore, if you look ahead there will always be some challenge in any guidance. Many times you set a goal, have the best estimate, but not everything goes according to a fully designed and defined action plan. This is part of our dynamics, it must be challenging somehow. It how we really like to address performance issues, to address indicators by looking ahead. So, this line is no different. It's challenging, but we think that, under normal conditions, with the information we have available today, it's possible to capture this growth over 2023. And we can see it in many ways, not only based on TPV. It's important to understand that, when we talk about credit card, we have to consider annual fees, which we are pushing hard to reduce, at the customer loyalty program, which we encourage and has received massive investments to generate customer loyalty , and interchange fees. These three effects are included in this line. The acquiring segment has grown significantly, as you noted, with revenue growth much higher than TPV growth. This segment requires we go after for the best mix, naturally focusing on repricing due to interest rate rises and the sale of financial products...Management is increasingly closer to the bank, and this integration is working increasingly better. We can't look at the acquiring segment separately, as the profit or loss of a business, but rather within the global context of a client-bank relationship.
At Asset, every year we set a challenging target for ourselves because, regardless of where the market is heading, a massive part of earnings is generated by performance fees. We must be able to address it, as I think we have a highly competent team. We have the multidesk team, in addition to the traditional desks at Asset, to which we set a performance fee challenge. And we've been delivered over the years. We've set a new challenge for 2023. It's clearly like the market risk, with the treasury highly dependent on positions, how we'll manage assets and risks over the year. But we're always expected to generate Alpha. I foresee a challenge in for the economic and financial advisory services, typically concerning the investment banking. At the broker, we've been able to increasingly invest in the

individual segment and provide products and solution to our clients, which have created plenty of value. As we had a gap in this shelf, we've been pushing to narrow this gap, month after month, and we are now starting to see improvements. Part of this revenue is generated by individuals, for whom we have a much more robust range of products and offers. On the other side, we consider that the mainstream investment banking, the M&A operations, must continue very active. Activities in the equity capital markets (ECM) will heavily rely on market window, on how the global and local scenario is laid out , on uncertainties, interest rates. Therefore, an opportunity may arise here. In spite of major challenges looming, we foresee activities will continue highly dynamic over the year in debt capital markets (DCM). Insurance operations keep making headway. As our insurance operations are focused on the retail segment, we manage to grow and increase the sale of products, we go about stacking up portfolios and vintages for subsequent years. We also expect an evolution for 2023, notably in profits. The insurance operation is expected to contribute significantly in 2023.
Looking at the whole picture, we think this is a challenge that can be met. There is a performance risk, as usual. To me, investment banking poses the highest risk today, but we will work hard and push for the guidance we set. In the event of any change over the quarters, or if we face any hardships, we'll update the guidance as required. Anyway, I think it's credible and feasible. Let's run after it.

Absolutely. Moving on, the next question is from Daniel Vaz, of Credit Suisse. Hello there, Daniel! Good morning.

Good morning, Renato. Good morning, Milton. Thank you for the opportunity to ask a question. Congrats for the earnings. I'd like to delve deeper into the breakdown of the guidance for portfolio growth. Should we still expect a lower growth in the retail segment and a higher growth in the wholesale? Are you already comfortable with this mix for individuals that reached 53% from 48% of collateralized loans? Can you comment on this portfolio growth and the breakdown? And a second question, please: was there any change in the spread applied to the wholesale segment in view of the subsequent event? Do you intend to do the same in the chain involved? Thank you.

That's great, Daniel. Nice to see you again. Thank you for the question. About the portfolio growth, Daniel, we disclosed the consolidated figures, but it's important to break it down into three large blocks. The retail portfolio will grow less than in 2022 and 2021. It's clear that growth has slowed down. However, I think that this balance between collateralized and non-collateralized loans may lead to non-collateralized loans rising over 2023 compared to vehicle and mortgage loans, which have experienced a very strong growth over the past years. I think we'll continue to have over 50% of collateralized loans, and the mix may be adjusted over the year, a positive factor to the financial margin. We'll probably have portfolios with more risks, for populations with a reasonable risk profile, we'll have a very affluent portfolio, I'd say, and we've managed to gain share in the best risks, which is a good sign. On the other hand, the mix is perhaps a little more favorable to the margin.
A slowdown is expected in the vehicle portfolio, something natural in view of the scenario. We'll likely grow the core in the cards portfolio, that is, a safe segment for us, especially with clients with a very close relationship with the bank. Due to the interest rate level, we expect a slowdown in the mortgage portfolio over the year. These are the expectations of the retail segment. We still expect a reasonable and low two-digit growth for very small, small and middle-market companies. Even though the corporate segment is also expected to grow close to low two digits or to one high digit, this will depend on the market dynamic. If you

look at our figures of 2022, you can see that our ability to recycle portfolios has been crucial. No wonder we've been top in DCM rankings with a significant market share, close to 30%. So, we'll continue to recycle portfolios, make room in them, provide funds, to continue operating with our clients and generating cross-selling in other activities. To me, the Latin America portfolio will be the one to negatively impact in 2023, to go flat over the year, already adjusted to the Brazilian real. Not because it will not grow but for the effect of currencies, which is dependent on a number of scenarios. So, this is the overview of our loan portfolio for 2023.

About the specific case you've mentioned, the spread will be reviewed whenever we understand there's a change in the scenario or prospects, or in the risk scenario, or that the companies' underlying risk increased. So, pricing is something dynamic that is part of our daily activities. No repricing was carried out due to the specific case. I say it again, it's a one-off case, a fraud, something that we don't usually see. It was perhaps the biggest fraud ever. So, again, it's a one-off case, different from everything we've seen to date. No contagion effect was noted in our portfolio. We've already looked at the whole chain. We always have to take care of something here and there, but nothing material. It's a company that keeps on operating and faces challenges ahead. Let's hope that it can ride it out in the best possible way. Anyway, there are people dedicated to see to this. The portfolio was not repriced over this event. We still charge the same prices and obviously always take due care and observe the scenario, but nothing is based on a one-off case, it's important to say.

Great. Thank you, Milton. Well, let's move on to the fifth question, from Mario Pierry, of Bank of America. How are you, Mario?

Good morning, everyone. Thank you for the opportunity to ask a question. Congrats for the earnings. Milton, I'd like to focus further on the wholesale segment. I understand that Americanas is a one-off case, but we read the news every day to see companies engaging financial advisory services to restructure their debt. So, it's clear that the general scenario is worsening. I'd like to know if you are more concerned about a specific sector than some other. I also want to understand, based on your guidance for provisions, how much should come from the wholesale and the retail segments? That's because, looking at the last year, the wholesale segment posted a very high profitability. ROE was close to 30%. So I'd like to understand how the bank is able to maintain such a high profitability in the sector. Historically, profitability has been lower. So I'd like to better understand the dynamics. What are your expectations for the wholesale segment for 2023?

Nice to see you here again, Mario. Thank you for your praise. For the bank wholesale is a very broad segment. In the MD&A view, how we disclose it, it concerns not only business related to Itaú BBA, from large corporations to middle market, is included, but it also concerns all business related to asset management and the Latin America operation. Several other business are included, some of them more resilient, some more dependent on credit, and others totally operated abroad. The Latin America operation has made significant headway, with good prospects and challenges for 2023.

It's clear that, in a scenario with expectations of a relatively low GDP of roughly 1% growth, much lower than our growth potential that trends upwards, the operation will not perform much better. That's the first point.

The second one concerns interest rates. Interest rates of 13.75% plus spread put significant pressure on any company, whether small or large. Even though such company is able to access the capital markets, the base interest rate is too high. This generates pressure on

financial cost and makes companies take plenty of care of the leverage level. Activity in January was even better than our expectations, but in November and December it fell down. We think then that there may be some offsetting. Now, with interest rates of 13.75%, the economy will naturally slowdown, although I consider the global scenario better off than one or two months ago. The global scenario is facing reduced growth, but less than we expected, which also makes up the whole picture. In our view, the scenario is becoming increasingly challenging for companies as a whole, notably for those with very low historical levels, with cost of credit close to zero in some cases. Some reversals have occurred over time, and many companies have outperformed...So, we'll see a normalization in the wholesale segment as well.
You've mentioned some cases, but they are not something new. Cases that were on the radar, except the one-off case that, let's repeat it, was a fraud, are not cases that your traditional models won't capture. The cases we've been hearing of are not new cases. They're the ones that have been on the radar, been monitored and followed up. A court-supervised reorganization has been filed. Again, there's nothing new. It was already a court-supervised reorganization, it had recovered but then filed again to legally protect the company. And this case is fully and duly recognized in a provision. No specific concern is expected, but it's clear to be closely monitored. This whole explanation points to an increasingly challenging scenario, but normalization will take place, current interest rate level will push delinquency rates of the corporate segment, which we are set to monitor very closely through a magnifying glass. We're not concerned about any specific sector, but rather about companies with a higher leverage level that may not have a proper capital structure. Let me remind you that there are many ways to address it. There's the capital markets, always offering opportunities and a window to capitalize companies, companies' stockholders may make an injection of capital in the hardest of times. Anyway, there are many ways to ride out such turbulences. What we really expect is a worse scenario for 2023 than 2022.This is included in our guidance for cost of credit. We're not breaking it down, but basically the effect comes from the retail segment, in terms of significance and materiality of provisions. In relative and percentage terms, the higher increase will be in the wholesale segment. We have to look from both sides. The highest percentage increase in cost of credit year-on-year, excluding the effect of the specific case, is in the wholesale segment. In terms of nominal values, large volumes arise from retail portfolios, and for obvious reasons: margin level is much higher and the risk level is different.

That was pitch perfect, Milton. Thank you. The next question is from Renato Meloni, who has recently started to cover the bank for Autonomous. How are you, Renato? Thank you and welcome to the call.

Thank you, everyone. Thank you for the opportunity and congrats for the earnings. I'd like to have some more information on the bank's growth. Based on data provided by the Central Bank of Brazil in December, portfolios for individuals have plummeted. It's something natural given the measures adopted by you and other banks, but a reduction higher than caused by seasonality usually creates risks. I'd like to know if now early in the year you expect such slowdown to continue and how this risk can affect the guidance for this year.

Great, Renato, it's a pleasure. Thank you for joining our call. Welcome. Renato, we've been adjusting the portfolio over some consecutive quarters, notably over the past quarters. We started to do so in the third quarter of 2021. So, we've been running for almost 13 or 14 months by making consecutive adjustments. We make adjustments, look at the behavior of the vintage, make additional adjustments. Managing risks is something very active and we make adjustments all the time. So, this reduction has many reasons. In some portfolios, such as the mortgage portfolio, it has to do with the context. High interest rates imply a very lower demand, so we've been producing less. For vehicles and cards, we made a proactive decision of reducing our exposure. For individuals, we significantly reduced the share of low-income clients in our portfolios. In this period, we reduced by 10 percentage points the share of low-income clients in the portfolio mix. This explains the 170 points less in NPL. That is, if we had held on with that mix, it's likely we would be running today with additional 170 points in NPL when compared to our current figures. This is active management approach we seek to adopt every month. In fact, there was already some slowdown in the fourth quarter and seasonality affecting some lines. For cards, the non-financed portfolio is likely to grow and the financed portfolio is set to fall. For personal loans, installment-payment plans have also dropped, although the level of the average balance is still slightly positive, more specifically concerning overdraft, mostly driven by Christmas bonus, as clients with funds in hand are able to repay the most expensive debts, thus settling their obligations. Since the retail segment uses a stacking approach, and these decisions have been made over several quarters, when we start to project the statistics of these stackings, we see this slowdown. I think that the whole system has been doing this to a greater or lesser extent. We are and more intensively for some portfolios where a higher concern exists about greater risks, notably in those more dependent on low-income clients, such as the widespread availability of cards and the vehicles segment. We've been very conservative as the scenario calls for caution. Caution is a word I've used a lot in recent calls, and we continue to look at the scenario with caution. There are still much uncertainty and we really need to slow down the pace of growth, manage portfolios in the best possible way and monitor the evolution of these portfolios over time. And, if an adjustment is required, we'll do it because it's part of the activity, and we'll be carrying on doing it day by day.

Perfect, thank you. Next question comes from Eduardo Rosman, of BTG Pactual. Hello there, Rosman! How are you? Welcome.

Hello, Renato, good morning, Milton. I've been following Itaú for nearly 15 years now and I don't remember seeing an operating performance gap between the bank and its main competitors as we do today. Many of the peers claim that this performance gap is cyclical, that it is due to the customer profile. We tend to believe that it's something more structural. Milton, since your first day as CEO you've been hitting that digital transformation key. Can we already say that a major part of this outperformance is driven by this digital transformation? I wish to understand whether Itaú's outperformance is here to stay and it's set to be structurally higher in the future than it has been for the last 10, 15 years. Thank you.

Thank you, Rosman, thank you for your words, it's good to see you again. Well, I'll start by going back to that same old disclaimer when I talk about Itau, especially about our figures and indicators, about what I believe has been important on this journey. I won't delve into the merits of relative performances, you have the numbers, they are being disclosed, and you'll be able to assess them better than I do.

I have huge respect for our competitors, regardless of moments in time, specific quarters or different results. To me, what we have here is a marathon; it's an infinite game, as we like to say. It's not a game that will end next quarter. And we are here for the infinite game, and this is how we face these challenges.

Regarding our performance, I have no doubt that the digital transformation has been playing a massive role in the bank's evolution. Just look at the speed at which we are implementing changes, bringing new features to our clients, changing our systems. Look at the simplification and interoperability of the different systems, the cost of service and the quality with which we are delivering new products and solutions. All of this added up translates very strongly into the NPS we are posting; this is not the digital transformation alone. I think the cultural transformation, this obsession with the client, have been playing a huge role, as the incentives of the whole bank are closely linked to customer satisfaction... I think there's a number of factors driving the bank to operate at a very high satisfaction level. What I'm saying is that profitability and NPS go hand in hand. It's evident that you can have a solution with an unsustainable business model with a high NPS, which will not deliver return. The bank works with sustainable business models, maximizing value for its clients. Without a doubt, it has to be a win-win solution, and that's why we've seen a pivotal evolution. I'm in no doubt about the role digital transformation has played in the progress of our bank, of customer relations, the way we work, our method of working... because if you don't have digitized, modernized and decomponentized platforms, then you'll have no speed. In the end, you'll have a group of people calling themselves an agile group, but without the actual tools to act in an agile way. I believe this is a core point. NPS is a reflection of this all, as we have nearly 20,000 people working in the communities. I've just talked about it: we have 2,000+ squads. This figure showcases the size and importance of the agile method within the organization. I think we've got results and a very healthy, positive profitability due to our being a universal bank. I always underline this point: being a universal bank is not just about being present in various segments, not just operating in a number of business areas. It's about being able to lead several business areas where you mean to operate. The bank has been successful by putting a lot of effort, dedication and making huge investments these last few years, to position itself as a leader in diversified business. I've just talked about the wholesale business: Looking at our wholesale business, we see assets having a huge impact on results. Itaú BBA has played a massive role in results, and we're not referring just to the commercial business, the investment banking, products, and the cross-sell activities. Looking at our relative positions in several of the business in which we operate, you'll see we've managed to top several of these rankings. LATAM operation has recorded a great return: in 2022 it was excellent, with major growths. If you add up this all, then everything plays a fundamental role in our performance. Our performance in retail business, where we have a more in-depth involvement with clients, has been outstanding. It's about being able to be close to clients, generate principality, and increase the level of client engagement with the bank. Each percentage point in the engagement rate represents R$1 billion in revenue, just to give you an idea of how we monitor this indicator. We have portfolios that face greater challenges and cyclical moments, such as cards and vehicles, to name just a few. But I think that having a healthy portfolio, with proper risk management through which we can anticipate cycles, and that balances itself in times of great difficulties, enables the bank to deliver a very high profitability level. Therefore, we may have the largest card operation in Brazil, from a portfolio size and market share viewpoint, naturally going through a more challenging time, but on the other hand other businesses are maximizing revenue in their markets, with a prominent leadership position in a number of them. It's this healthy portfolio that has helped us keep on our usual profitability level. Challenges are still looming, however. We really want to continue improving retail profitability, and we have the figures to prove it. There may indeed be a downturn in wholesale. Actually, this was even one of the questions where I ended up not underlying the point of profitability, which was driven by a larger increase in cost of credit... It's exactly our ability to manage several businesses that makes us foresee a ROE at a very high level in the guidance for this year, despite factors such as major challenges, competition on all sides, changes taking place at full speed here at the bank. I foresee no issue today that would shift my profitability prospect, but again things are dynamic, they can change over time, as it mainly depends on the macro scenario. The cost of doing business in Brazil plays a major role in our results, as it directly impacts them. For us to continue keeping on such profitability level will depend much on the scenario. Last but not least, look at our Global Markets department, not only from the clients' viewpoint, which has been performed really well. We've been increasingly using the market risk approach to provide our clients with great service rather than working with it as a set piece to generate return on associated risks. Even so, we've managed to have excellent risk management in treasury, amid a very challenging scenario. I think that in relative terms it's very clear, and we've been working hard to keep on proper results and returns in this line, with a major hedging cost. Margin with the market totaled R$2 billion in 2022. But for this policy, we would have additional R$2 billion in the bank's revenue.

Our next question comes from Tito Labarta of Goldman Sachs. Welcome, it's good to see you again.

Good morning, Milton and Renato. Congrats for this call and thanks for the opportunity. My question concerns how the macro scenario will impact the bank. The rhetoric from the government seems increasingly negative, as they are challenging the independence of the Central Bank, high interest rates, and debt rescheduling programs by using government-owned banks to support growth. I don't know if you've talked to them already, but how do you think this environment could impact the bank and the way you run the bank? Especially if some of the public sector banks start lending at below-market rates. What do you think about the current macro and political environment and how can it impact the bank?

Hi, Tito, it's good to see you again, thank you for joining us today. Yes, we have been in talks with the government, with Minister Fernando Haddad and his team. But not only with him. Last week, at Febraban, we were with Simone, Esther, Fernando Haddad and Aloizio Mercadante, president of BNDES, who told us a little more about their plans. All the discussions we've had so far have been very positive, the direction and concepts very clear. The government team has been very open to listen to us and understand our views on the scenario.

In a democracy that was so polarized last year, it's natural to have some noise as we see now. What I mean is that we have to wait and see, since we don't have all the information. Minister Haddad's kicked off with the intention to reduce the government deficit, which is a positive message for the market, as we consider the deficit to be a big issue. The government will seek to reduce its deficit in 2023. We had a great discussion on targets and inflation targets. I think such noise in communication is unnecessary. In my opinion, the government needs to define ASAP the new inflation target and work on it; otherwise, there will be an impact on the prospective inflation. Expectations are rising just because of such noise. It impacts the yield curve. The top piece of information, in my and the entire market's viewpoint, concerns the new fiscal framework, which should be better clarified by the end of April.

That's what Minister Haddad told the market. So, I'd say that there's some noise. We've been listening to the discussions. What we have to understand is that we live in a democracy and, therefore, some noise is part of the process. What is really important is to get the new decisions and efforts from the new government's finance team, because then we'll have the information needed to make some prospective estimates. However, uncertainties abound and they change the way we run the bank. Of course we are being more conservative. We clearly have a cautious approach. We don't have all the information we need and it's hard to make estimates. The louder the noise, the less confident we believe we should be in running our business. We have the guidance, where we consider the macro economic scenario. GDP may be on the upside and grow around +1.3% for 2023 (we considered +0.9% in the guidance), which could have a positive impact. But again we must underline our many challenges ahead and the loads of noise around. These elements add to the price, not only in the financial market, but also in the system and in our decision-making. We thus expect this noise to get lower at some point, notably as major decisions are made, which in turn should reduce the impact of the yield curve. That's our best expectation, and we have to wait and see what messages and decisions come over the following months. Yes, we are more conservative and more cautious amid the current scenario.

Next question comes from Santander, as Arnon Shirazi is already with us on screen. Arnon, hello there! Welcome to our call.

Hi everyone, good morning, everything's fine. How about you? First and foremost, I'd like to congratulate you on 2022 top results. Anyway, I'd like to know a little more about the bank's investments for 2023 and, if possible, please give us some of your expectations. Thank you and again congrats on your earnings.

Thank you for the kind words, Arnon, and for attending our call. We're very pleased with the evolution of our investing business as a whole. In my opinion the bank has done its homework, made the decisions that were needed, the necessary investments. And it all takes some time to settle. This usually takes from three to six months, depending on the investments and the geography where you operate. Our B2C model already has more than 2000 investment consultants, and a substantial volume of portfolio clients are being served by these consultants, with new tools and platform. We've got a much differentiated product platform, since, besides the open platform with hundreds of funds and third-party products, we've also got a massive proprietary product solution, giving us the ability to go smoothly through cycles. In times of risk aversion, with higher interest rates and a greater search for fixed-income instruments, the bank grows its platform of proprietary products. If we notice a change and a greater appetite from clients, this is reversed. We've been very successful in balancing this offer for our clients. I've been going on and on for so many calls, and I'll say it again: today our model, in terms of incentives for our investment advisors, is absolutely free. Portfolio profitability over time is the most important issue, no matter which product is being offered or whether it's more or less profitable for the bank: it must be the product that best suits our clients' needs. This model has been implemented long ago and we've been achieving huge results. I think something significant to share with you is the massive reduction in the volumes lost to new competitors in the period, mainly driven by two reasons. The first reason is a better structured portfolio, which has dedicated advisors, good NPS and great service. The second one concerns the interest rate. These two drivers support this reduction and we've been able to gain market share in investments as a whole. Our ratio of individual investments to individual portfolios is perhaps one of the best in the market today. We've been able to make headway in this journey. Are we satisfied? No. Have we gotten to the top? Neither. I believe we still have major challenges ahead. I've just talked about the evolution of some products at the broker, which already experienced great advances in 2022. The roadmap is something massive for 2023, as there's a series of products in the pipeline, a series of gaps that need to be bridged. We are working hard for it. To wrap things up, I believe we've found a model and thus have been able to make headway. We are stabilizing this model and already getting some results. We have a pipeline of products, solutions and digital offers to move forward with. So, there's a lot of investments and a loads of things still to be done. We're still not satisfied with the position we are in, but quite pleased with the progress to date.

Absolutely. Next question. From Rafael Frade, Citi's analyst. Hello there, Rafael!

Good morning, everyone. Everything's fine. Thank you for your time and congrats on your earnings. I'd like to focus a little on the financial margin, the NIM. We saw NIM was somehow unstable, a discussion began on how this evolution would look. You've commented the matter of the retail mix, with spreads somehow going downwards throughout 2023. But we are witnessing the wholesale at the highest level of the historical level. Can you clarify the situation of the wholesale business: Is the mix of products? You've said there is no significant change in spread, so is it a matter of funding? What can explain this rising margin in wholesale?

Thanks Rafael, nice to see you, my gratitude for your initial remarks. We foresee a very slight rise in NIM for 2023. We continue to believe that if an increase is to occur, it'll be in the margin. We've been recording a quite reasonable profitability level in the consolidated figures. And we can expect a slight increase in this item over time. The guidance itself foresees an explicit increase in the margin over a number of reasons. The fourth quarter is usually atypical, with inflows due to Christmas bonus, massive growth of unfunded credit cards and drop in the overdrafts balance. All of these end up affecting the NIM mix. On the other hand, we've been getting more volumes, some products have regulatory caps that are restrictive, as there is a structural increase in the cost of funding. Overdraft is one example. The dynamic of mortgage loans involves asset to liability pricing, savings or treasury bills to the loan portfolio. Payroll loans also have caps, as well as the competition itself. We foresee some pressure on the spread in some products, mainly those subject to regulatory caps. On the other hand, as we are a universal bank, we have such a huge volume of client-oriented services. Not mentioning that cross-sell affects the margin as well. A number of transactional products, treasury products or cash management and deposit products, given the volume of funding the bank carries out over time, have generated massive returns. We also benefit from high interest rates, mostly with higher proceeds from our deposits and working capital. This impact is not immediate, as we contract hedging, either for deposits or capital at several ends of the yield curve. However, we foresee a future potential impact for 2023 already, arising from either deposits or working capital. In the wholesale business, factors such as our being a universal bank and able to capture a number of treasury products, having an impressive volume of cash management services, and a large concentration of balances and deposits, hugely contributes to our results. Let's have in mind that the wholesale business does not concern Itaú BBA alone, as we also have the Asset with performance fees and rising earnings, and the operations in Latin America outperforming throughout 2022. We recorded a substantial growth in all countries, with a profitability level much higher compared to previous years. Anyway, there are fierce challenges ahead, but interest rates, especially in the short term, also bring some positive impacts. I like to say that structure-wise we prefer to operate with a lower interest rate, without a doubt, for the bank to be able to expand its business and increase its risk appetite. Therefore, companies can actually have a higher credit quality and a much healthier growth capacity compared to a scenario of risk due to much higher interest rates for an extended period. When interest rates are to fall again, we'll lose some short-term income. On the other hand, we recover the ability to grow with more strength, with some of the impact on the cost of credit itself.

Carlos Gomez, of HSBC, has joined us for the next question. Hi Carlos, welcome!

Hello, good morning and thank you for taking my question. I'd like to go back to the matter of capital. First of all, could you please quantify the impact of the rise in the operational risk on assets? You've mentioned before this rise can be implemented in January 2024 or even further. Then, how about the bank's risk appetite? Has it changed? You've mentioned you are very cautious, there are loads of uncertainties. Are you willing to operate with different capital tiers? What is the current capital tier and what are your expectations for your CET1? And at last, how can all of this affect your investment in XP? Do you intend to keep it or can you sell in the future to reduce the risk? Thank you.

Hello there, Carlos, so good to see you. Thank you for joining us today.
As I mentioned earlier, we believe we still have room to increase our capital base. We've decided to run the bank with a CET1 of 11.5%, slightly below the 12% we had in the past. Why? First of all because, in the past, the most significant negative impact on capital was due to the foreign exchange rate. For two reasons: First, due to the overhedging strategy that generated excess tax credits, thus impacting capital. Then, due to the operations we have not only in LATAM, but also in portfolios indexed to the US dollar and other currencies. This brings a lot of volatility to our capital ratio. If we exclude the overhedge, as a result of changes in the regulatory environment, and implement the hedge of capital ratio, we'll be able to eliminate all this volatility.
That's why we have reduced our risk appetite. We don't need to run the bank with 12% CET1. This is the main reason for our decision. But mostly we are interested in maintaining our credit ratings.
We won't go much lower than that, even if it's possible, because we want to maintain our standard of excellence in ratings. We refer to local and international benchmarking to understand what would be reasonable for us to hold, capital-wise. That's why we believe that the most significant impact on volatility is neutralized. Additionally, our buffer is more significant today than it was in the past, even with the 50 basis point reduction.
It's still too early to talk about our operational risk, we haven't disclosed a specific figure yet, but my opinion is that we could have something around 100 bps, depending on what is implemented. This seems reasonable. As a result, as we foresee our capital to increase in 2023, with more profitability, risk assets increasingly less than in 2022, and other minor impacts, we still believe there will be capital generation by the end of 2023.

It all depends on whether an approach to the operational risk is implemented or not in 2024. Anyway, we are recognizing a provision and considering this issue in the planning of the bank's capital base.
These figures constitute just an overview, as we will still be in a very good position in terms of capital base.

Thanks a lot, Milton. Next question is from Gilberto Garcia of Barclays. Hello Gilberto, nice to see you.

Hi Milton, hi Renato, good morning, it's a pleasure to talk to you all.

I’ve got a quick question about supplementary provisions. We've seen these provisions increase, quarter over quarter, but much less than the exposure to the subsequent event. Is it fair to think that, if that hadn't happened, you could have released about R$1.2 billion from these supplementary provisions?
Another quick question is about your expense guidance, which was widely dispersed. Can we understand that if conditions become more challenging over the year, you will postpone or withhold some investments?
Thank you.

Thank you for joining us, Gilberto. Thank you for your question. Regarding the provisions, to be fully accurate, the answer is yes. If that specific event hadn’t occurred, we would have been in a position to consume part of those supplementary provisions you’ve mentioned. Looking at the portfolio, however, name by name, then we understand that the best thing to do was to recognize a full provision for this one-off case, just the way it was done.
Regarding 2023, we believe that we should keep an eye on the cost of credit, on our guidance range. We must also understand how we should monitor the additional allowance for doubtful accounts.
We discuss investments on a day-to-day basis, and we decide whether or not to expand some business, line of credit, business line or to adopt a new business model. Looking at our expenses and the cost of the bank for 2023, we believe we have room to improve our efficiency ratio and we’ll continue to do so. On the other hand, we wish to continue investing in the future of the bank. Therefore, we don’t like to act on the next quarter by making decisions that prevent us from investing in the things we believe for real. The cost of equity is different now, the scenario has shifted. We are always cautious in our decision-making amid the current scenario, on the grounds of the cost of capital. We take this into consideration. Something outstanding that I’d like to highlight are the costs of the bank. Our target is that the costs of running the bank do not exceed 2% year-on- year. In relation to the inflation for banks, which is higher than the IPCA index. This is a huge adjustment needed so we can make room for more investments in the bank.

Thank you Milton, now let’s move on to the last question from our analysts: Juan Recalde, of Scotiabank. Hello, Juan, thanks for being with us and for asking a question.

Hello, good morning, Milton, Renato, thank you for this opportunity to ask. My question concerns the acquiring business. In 2022, acquiring commissions grew above the transactions amount. What to expect for 2023? Can we expect revenue to rise above the transactions amount in 2023? Thank you.

Juan, thank you for your question. The acquiring business has increasingly become a product itself within the organization. We delisted Redecard’s capital, as you well know, in 2012. I spent a few years there and since then we’ve been investing more and more every year to integrate the acquiring business into the bank. I think we are in a special moment and we’ll be able to do this with much more speed. We need to look at the acquiring business with caution. Let me make some very brief comments here. First, we’ve been able to grow revenue more than TPV for a number of reasons: The first one is the ability to reprice, by setting apart those clients who need to be repriced from those whose relationship goes far beyond that of a merely acquirer with the bank. Thus, we must have the client view rather than the product view. The performance of financial products was essential throughout the year, certainly delivering huge results. That’s why we’ve got a massive growth. We’ve been

increasingly operating a proper mix of products and services, always seeking to provide our clients with outstanding services, while seeking to grow strategically in the most profitable mix. That's the evolution we've been achieving. This joint work between Rede and the bank has delivered outstanding results. That's increasingly a business where the bank has acquirers teaming up with distributors to grow in the most profitable segments. It's not a good read if you look at Redecard's P&L for the year alone… Have in mind that, under our business model, we set apart the whole business capital and leave it in the organization. Looking at the results of several other companies in the market, the whole working capital of these companies have benefited from a higher interest rate or cost of funding to carry out operations. It has a zero cost for them, because it's the capital allocated for carrying out operations in advance at a lower effective rate. As we price on the margin, we look at the opportunity cost of funding to carry out the pricing of these operations in advance at the other end. From a managerial point of view, this model is not impacted by these effects and thus we can set apart the working capital in the organization. Therefore, to me there's been a critical evolution in operations. NPS performing really well, the whole progress in the relationship with clients and their closer relationship with the bank. That's why I'm so optimist for 2023 and believe there's a double effect here: the operational and performance indicators are not the only ones set to improve, but also the result of the business alone should be higher, as we also hedge liabilities. Maybe many companies haven't addressed this mismatch and carried out the proper hedging. We have implemented a hedging policy that has worked really well, making results stable. I expect the results of the acquiring business to grow in 2023 as well. It's clearly not the results we used to have in the past. I think that structurally the industry has changed a lot since then, with margins much lower. Our active customer base has recorded a sharp fall in the period, due to what I call "dirt at the base". That's because we ended up investing in some segments in the past and later we made the decision to leave them. We're basically talking about Credicard Pop, a specific segment of individuals. To me, at that time the operation was not structured the way it should have, as you increased the number of clients but didn't get the results profitability-wise. The NPV of these vintages was negative. We ended up clearing the customer base over the last two years. It's important to show that the segments we focus leads to an increase in the client base, while the segments we left were not profitable. The latter brings along a lot of clients but with no or low profitability, to be more accurate.
That's why the reduction in the client base ends up being something healthier, as we go onwards and upwards. We are quite pleased with these advances. We expect 2023 to be a good year to grow the acquiring business.

Thank you Milton. Now there are no other questions from the analysts, but we got many others via WhatsApp. I know we're short on time here, but I'd like to have at least one more so we can close our chat today. These questions addressed different topics, and we've already covered most of them, such as costs, NPL and portfolio. So, I've picked one about something what we call "beyond banking". The question is from Ítalo Dias. He asks: The bank has growing the portfolio in recent years with products that go beyond the financial market. Thinking about the expansion of this portfolio, what other types of business does the bank see as potential in the coming years?

Thank you for your question, Ítalo. In fact, the beyond banking is part of our strategy. What we must do is to take advantage of an incredible audience, the frequency of contact with our different customers and understand where new opportunities arise. I think Itaú Shop is the most relevant of them all. We're delighted with these advances so far, the GMV has grown massively, with all of our *'Para Sempre'* programs, whether '*iPhone pra sempre*' or '*Samsung pra sempre*'. Both Apple and Samsung are incredible partners, bringing impressive results for the bank, while we've been able to provide our clients with exclusive offers. That's how we've been able to break new ground and make headway in other revenue verticals, other than the mainstream ones in the financial or banking system. This has brought not only a cross-sell capacity, but more talks with our clients, more audience... digital transformation plays a huge role for us to increasingly attract more audience to our apps, the *Super App* above all. Advances have been made in a very healthy way. We've also been working in wholesale cash management, pushing to advance and open new fronts that are also beyond banking. We've got a series of initiatives, and it's our role to be always open and look outside, seeing where opportunities arise, where related business are located, new ecosystems ... We've also been working with an ERP offer, which is beyond banking, in the very operation we carried out with TOTVS, already approved by CADE and just short of a final approval by the Central Bank. This is another way of deploying our business to other channels. Avenue itself, also subject to approval by the Central Bank, is a way of reaching new markets where we have no operations yet, mainly for clients who have the funds and are longing for global products. As our offers are currently much more restricted to Personnalité and private banking clients, we need to expand and make access to international investments affordable for all. Anyway, we are providing our different ecosystems with new offers and products. We've been trying to go beyond banking whenever we understand a correlation, a synergy exists. This creates value for clients, they don't have to leave the bank's app, and they are offered an associated credit offer, as the *Pra Sempre* programs can be purchased with a 21-month financing term. Client gets the product, the financing, it's an integrated experience that ends up creating a loyalty bond, not only in their relationship with the bank, but also in the use of the financial products behind these operations. That's been our view on these new businesses.

Perfect, Milton. We'll bring you more information about these products here at the calls, as they develop and grow.

Absolutely. We'll do it.

Now we are bringing this Q&A session to a close. Before giving the floor for you Milton to wrap it all, let me remind you all that all the earnings release materials are available on our IR website. I invite you all to access these materials there. Milton, thanks a lot for today's call.

Thank you Renato, for hosting it. Thank you all, it's always a pleasure to be here with you and we'll certainly see you over the next quarter in a number of occasions. I hope to be back here soon to tell you a little about our first quarter, about the challenges that are likely to be huge.
I'd like to close it by underscoring that we're so very pleased, I think we are kicking off 2023 in a much better position than last year, certainly better than we ended 2022. Even though it was a very long year, not a month, the fact is that we remain very dedicated, super energized, and so very willing to make it work. And last but not least, we are very humble and very much aware of the challenges, of the competitive environment. We'll keep pushing very hard to deliver our commitments and keep on our sustainable performance over the next few years.

The challenges are massive, we've just talked about some of them, and I hope we are able to keep tabs on them over this journey, throughout the year. Thank you so much again and see you soon, a big hug to each of you, take care!

Thanks and see you soon!