Itaú (ITUB4) | 1Q25 Review: "The Hardest Part Isn't Reaching a 20% ROE, But Sustaining It Consistently at 20%" (Roberto Setubal)

May 09, 2025

Itaú delivered yet another solid and consistent performance in 1Q25, posting a **record recurring net income** of **R$ 11.9 billion**, showing a strong increase of **+13.9% YoY** and **+2.2% QoQ**. The result was **1.2% above market consensus** and **0.6% above our estimates**. **Return on Equity (ROE)** reached **22.5%**, improving **+0.4 pp QoQ** and **+0.6 pp YoY**, and is once again expected to be the **highest among incumbent banks**. In absolute terms, Itaú is set to post the **largest profit in the banking sector** this quarter, further reinforcing its **leadership in scale and profitability**.

Despite the typically weaker seasonality of the first quarter, **Itaú managed to deliver sequential improvement in both earnings and profitability**, driven primarily by the expansion in Client NII (Net Interest Income), even amid a slight contraction in the loan portfolio. Performance was also supported by disciplined provisioning, a strong contribution from the insurance, pension, and capitalization unit, and a sequential reduction in operating expenses.

Itaú enters 2025 well-positioned, and in our view, is consolidating its status as the **most prepared, profitable, and well-capitalized bank in the sector**. ITUB4 shares continue to trade at **attractive multiples** of **7.5x P/E 2025e** and **6.8x P/E 2026e**, with a **2024 P/B** of **1.7x**. Given this backdrop, we **reiterate our BUY recommendation**, with a **target price** of **R$ 44.00**.

Itaú
(ITUB4 BZ Equity)

Recommendation: BUY

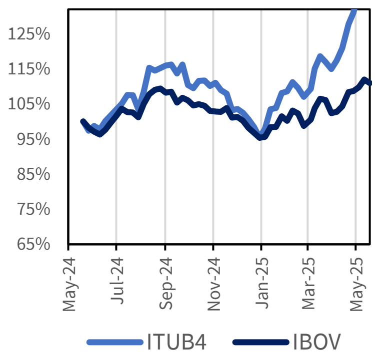
Equity Value (R$ mn):
407.920

Outstanding Shares (mn):
10.198

Target Price 12M:
R$ 40,00

Current Price (R$):
35,32

Upside:
13,25%



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1Q25 Operational Highlights:

- **(+) Client Net Interest Income (NII):** Client NII grew **+3.2% QoQ** and **+13.9% YoY**, totaling R$ 29.4 billion, driven by an improved loan portfolio mix, the expansion of proprietary working capital, and higher average loan volumes. This performance was partially offset by the lower number of business days in the quarter.

- **(+) Market NII:** Market NII also posted a positive surprise, increasing **+2.2% QoQ**, reflecting a stronger trading desk performance, although it declined **-12.8% YoY**.

- **(+) Cost of Credit and Asset Quality:** Credit costs totaled **R$ 8.9 billion (+3.8% QoQ; +2.1% YoY)**, remaining under control and growing well below the pace of portfolio expansion. **Delinquency over 90 days (NPL 90+) continued to improve**, dropping -0.1 pp QoQ and -0.4 pp YoY, to 2.3% - the **lowest level since 1Q21**. A highlight was the Retail segment, where delinquency reached 3.6% (-0.2 pp QoQ).

- **(+) Efficiency:** Operating expenses decreased **-5.5% QoQ**, reflecting lower spending on variable incentives, marketing, advisory, and consulting. On a yearly basis, expenses rose **+9.8% YoY**, driven by increased investments in technology. The **efficiency ratio improved by -2.6 pp QoQ, reaching 38.1%**, the **best level in the historical series**.

- **(-) Fee and Insurance Revenues:** Revenues declined **-4.0% QoQ**, impacted by seasonal effects that reduced transaction volumes in card issuance and acquiring lines. On a yearly basis, revenues grew **+3.5% YoY**.

- **(+) Loan Portfolio:** The portfolio dropped **-1.7% QoQ**, but grew **+13.2% YoY**, with standout performances in Mortgage (+16.7% YoY), Auto Loans (+9.0% YoY), and Personal Loans (+7.8% YoY).
- **(+) Profitability and Capital:** ROE in Brazil reached **22.5%**, reflecting strong operating performance. The **Common Equity Tier 1 Ratio (CET1)** declined **-1.1 pp QoQ** and **-0.6 pp YoY**, to **12.6%**, mainly due to the **payment of additional dividends and interest on capital**, the **increase in risk-weighted assets (RWA)**, and **regulatory effects**.
- **(-/+) Accounting Changes:** In addition to reclassifications between fee income and net interest income (due to Resolution 4,966), the bank implemented a series of reporting adjustments to align disclosures with the way management monitors the business. Key changes include:
    1. **Reclassification of the expanded credit portfolio**, now including securities (TVM), FIDCs, exposures to financial institutions, and agribusiness trading, as these operations behave similarly to traditional credit and also consume capital;
    2. **Reorganization of the Services line**, with new subgroupings;
    3. **Restructuring of the Expense lines**, to better reflect operational cost centers;
    4. **Introduction of new credit quality indicators**, in line with Resolution 4,966, incorporating **Stage 2 and Stage 3 classifications** for risk-based provisions.

Itaú enters 2025 well-positioned, and in our view, is consolidating its status as the **most prepared, profitable, and well-capitalized bank in the sector**. ITUB4 shares continue to trade at **attractive multiples** of **7.5x P/E 2025e** and **6.8x P/E 2026e**, with a **2024 P/B** of **1.7x**. Given this backdrop, we **reiterate our BUY recommendation**, with a **target price** of **R$ 44.00**.

For investors with **lower liquidity constraints**, we suggest **common shares (ITUB3)**, which trade at a **larger discount**: **6.6x P/E 2025e, 6.0x P/E 2026e,** and **1.5x P/B 2024**. Common shares offer the **same dividend payout** as preferred shares, yet are trading at a **-11.4% discount** to ITUB4, which offer higher liquidity.

Another compelling alternative is **Itaúsa (ITSA4)**, the holding company that controls Itaú and derives approximately **95% of its value from its stake in the bank**, but still trades at a **steep 24% discount to its sum-of-the-parts (SOTP)**. With the approval of Complementary Law 204/23, enacted in January 2025, and the subsequent **elimination of the tax inefficiency starting in 2027** — which accounts for an estimated **7–9% of the company's market value** —, we see a **significant opportunity to reduce this discount and unlock additional upside** in the holding's shares. For further details, please refer to our recent **Itaúsa report (link)**.

Figure 1: Itaú (ITUB4) | 1Q25 Results: Another Consistent and Solid Performance

Review (R$m)	1Q25E	1Q25	4Q24	1Q24	Vs. Est	QoQ	YoY
Net Income	11.063	10.894	10.558	9.583	-1,5%	3,2%	13,7%
Recurring Net Income	**11.063**	**11.128**	**10.884**	**9.771**	**0,6%**	**2,2%**	**13,9%**
Income Statement Summary							
Client NII	28.686	29.399	28.484	25.821	2,5%	3,2%	13,9%
Market NII	882	923	904	1.059	4,6%	2,1%	-12,8%
Net Interest Income (NII)	**29.569**	**30.322**	**29.388**	**26.880**	**2,5%**	**3,2%**	**12,8%**
Fee Revenue	11.124	11.232	11.697	10.852	1,0%	-4,0%	3,5%
Insurance, Pension, and Capitalization Result	3.013	2.983	2.599	2.230	-1,0%	14,8%	33,8%
Fee and Insurance Income	**14.137**	**14.215**	**14.296**	**13.082**	**0,6%**	**-0,6%**	**8,7%**
Total Revenue	**43.256**	**44.537**	**43.684**	**39.963**	**3,0%**	**2,0%**	**11,4%**
Total Administrative Expenses	**15.557**	**15.796**	**16.707**	**14.386**	**1,5%**	**-5,5%**	**9,8%**
Personnel Expenses		5.804	6.197	5.651		-6,3%	2,7%
Transactional Expenses		4.091	4.213	3.829		-2,9%	6,8%
Tech Expenses		2.711	2.683	2.233		1,0%	21,4%
Other Expenses		901	1.165	797		-22,7%	13,0%
LATAM (ex-Brasil)		2.288	2.449	1.906		-6,6%	20,0%
Tax Expenses	2.682	2.670	2.647	2.398	-0,4%	0,9%	11,3%
Operating Income	**25.017**	**26.071**	**24.330**	**23.178**	**4,2%**	**7,2%**	**12,5%**
Cost of Credit	**8.782**	**8.976**	**8.643**	**8.793**	**2,2%**	**3,8%**	**2,1%**
Provisions for Loan Losses	9.377	9.494	9.217	9.131	1,2%	3,0%	4,0%
Discounts	600	714	615	626	19,0%	16,1%	14,0%
Credit Recovery	1.336	1.233	1.534	1.092	-7,7%	-19,6%	12,9%
Insurance Claims	**449**	**389**	**400**	**384**	**-13,3%**	**-2,8%**	**1,3%**
Pre-Tax Income	**16.235**	**16.706**	**15.687**	**14.385**	**2,9%**	**6,5%**	**16,1%**
Taxes	4.871	5.259	4.475	4.327	8,0%	17,5%	21,6%
Tax Rate	30,0%	31,5%	28,5%	30,1%	1,48 p.p	2,95 p.p	1,40 p.p
Minorities	301	319	328	287	5,8%	-2,6%	11,1%
Balance Sheet Summary							
Managerial Loan Portfolio	1.352.727	1.383.097	1.406.357	1.222.333	2,2%	-1,7%	13,2%
Deposits	1.080.175	1.019.413	1.054.741	965.331	-5,6%	-3,3%	5,6%
Shareholder's Equity	207.256	202.623	201.055	175.981	-2,2%	0,8%	15,1%
Profitability							
Return on Equity (ROE)	21,7%	22,5%	22,1%	21,9%	0,8 p.p	0,4 p.p	0,6 p.p
Efficiency Ratio	n.d.	38,1%	40,7%	38,3%		-2,6 p.p	-0,2 p.p
Asset Quality							
Stage 3 Loans / Total Portfolio		4,4%	4,4%			0,0 p.p	
Stage 3 Coverage / Total Portfolio		56,1%	55,0%			1,1 p.p	
NPL 90 days	2,3%	2,3%	2,4%	2,7%	0,0 p.p	0,0 p.p	-0,4 p.p
NPL 90 days with TVM		1,9%	2,0%			-0,1 p.p	
NPL Formation (R$m)	8.716	7.749	8.166	8.917	-11,1%	-5,1%	-13,1%
Leverage							
Tier 1 Capital Ratio	15,3%	14,1%	15,0%	14,5%	-1,2 p.p	-0,9 p.p	-0,4 p.p
Basel Ratio	16,9%	15,7%	16,5%	16,4%	-1,2 p.p	-0,8 p.p	-0,7 p.p
Core Capital Ratio	13,8%	12,6%	13,7%	13,0%	-1,2 p.p	-1,1 p.p	-0,4 p.p

Source: Itaú and Genial

Figure 2: 2025 Guidance | Profit and ROE Simulation: R$ 45bn Net Income, Up 9% YoY

Guidance 2025 (R$m)	2024 Actual	Low	Mid	High	Low	Mid	High
Loan Portfolio	1.359.115	1.420.275	1.447.457	1.474.640	4,5%	6,5%	8,5%
Client NII	108.024	116.126	118.286	120.447	7,5%	9,5%	11,5%
Market NII	4.421	1.000	2.000	3.000	1.000	2.000	3.000
Cost of Credit	(34.493)	(38.500)	(36.500)	(34.500)	(38.500)	(36.500)	(34.500)
Insurance Claims*	(1.615)	(1.760)	(1.728)	(1.696)	9,0%	7,0%	5,0%
Fee and Insurance Income	56.511	58.771	59.619	60.467	4,0%	5,5%	7,0%
Non-Interest Expenses	(62.108)	(67.387)	(66.456)	(65.524)	8,5%	7,0%	5,5%
Tax Expenses*	(10.203)	(11.121)	(10.968)	(10.815)	9,0%	7,5%	6,0%
Pre-Tax Income*	60.507	57.128	64.254	71.379	3,9%	5,9%	7,9%
Taxes	(17.863)	(16.567)	(17.991)	(19.272)	-7,3%	0,7%	7,9%
Tax Rate	29,5%	29,0%	28,0%	27,0%	29,0%	28,0%	27,0%
Minorities*	-1.241	-1.241	-1.241	-1.241	0,0%	0,0%	0,0%
Net Income*	**41.403**	**39.320**	**45.022**	**50.865**	**-5,0%**	**8,7%**	**22,9%**
ROE	**21,7%**	**18,9%**	**21,6%**	**24,4%**	**-2,84 p.p**	**-0,11 p.p**	**2,70 p.p**

***Genial Estimates**

Source: Itaú and Genial

Based on the midpoint of the bank's guidance, we project **net income** of **R$ 45.0 billion** in **2025**, indicating **+8.7% growth YoY** and an **ROE** of **21.6%**. However, we believe there is **upside potential**, supported by Itaú's **strong balance sheet and operational efficiency**. Accordingly, **our expectations point to net income** of **R$ 46.2 billion (+12.2% YoY)**.

Quarterly Highlights

Loan Portfolio: Quarterly Decline Due to FX Pressure, but Strong 12-Month Growth

Figure 3: Loan Portfolio: Flat in Retail, Decline in Large Corporates and SMEs

R$m	1Q24	4Q24	1Q25	QoQ	YoY
Individuals	**413.434**	**444.764**	**448.810**	**0,9%**	**8,6%**
Credit Cards	130.932	142.207	138.913	-2,3%	6,1%
Personal Loans	62.456	65.931	67.349	2,2%	7,8%
Consigned Loans	73.454	74.430	74.066	-0,5%	0,8%
Vehicles	33.798	36.521	36.846	0,9%	9,0%
Real Estate Loans	112.795	125.675	131.636	4,7%	16,7%
Micro, Small and Medium Enterprises	**232.085**	**278.817**	**273.156**	**-2,0%**	**17,7%**
Individuals + Micro, Small and Medium Enterprises	**645.519**	**723.581**	**721.965**	**-0,2%**	**11,8%**
Large Corporates	**376.317**	**433.223**	**425.334**	**-1,8%**	**13,0%**
Credit Operations	203.906	232.590	225.778	-2,9%	10,7%
Private Securities	163.029	153.632	153.632	0,0%	-5,8%
Total Brazil with Financial Guarantees Provided and Private Securities	**1.021.836**	**1.156.804**	**1.147.300**	**-0,8%**	**12,3%**
Latin America	**200.497**	**249.553**	**235.797**	**-5,5%**	**17,6%**
Total with Financial Guarantees Provided and Private Securities	**1.222.333**	**1.406.357**	**1.383.097**	**-1,7%**	**13,2%**

Source: Itaú and Genial

The **expanded loan portfolio was down by -1.7% QoQ**, but still posted a robust **+13.2% YoY growth**, reaching **R$ 1.38 trillion**. The quarterly decline was influenced by the appreciation of the

Brazilian real, which pressured the **Large Corporate** portfolio **(-1.8% QoQ)**. Excluding the FX effect, the portfolio would have remained virtually flat during the quarter.

The **Retail (Individuals) portfolio was stable** (+0.9% QoQ), impacted by the typical seasonality of 1Q, especially in the Credit Card line (-2.3% QoQ), which was offset by stronger growth in Mortgage Loans (+4.7% QoQ) and Personal Loans (+2.2% QoQ). On a yearly basis, highlights included: Mortgage Loans (+16.7% YoY), Auto Loans (+9.0% YoY), and Personal Loans (+7.8% YoY).

Overall, we observed **balanced growth across Retail portfolio lines YoY**, with the exception of Payroll-Deductible Loans, which remained virtually flat (+0.8% YoY). On a quarterly basis, seasonality weighed on some lines, but the bank **remained focused on expanding segments like Mortgage and Personal Loans**.

Itaú has reinforced its strategy of selective growth, **prioritizing expansion in segments with higher collateral levels and more controlled risk profiles**, such as Mortgage and Auto Loans — which continue to gain share in the portfolio. At the same time, the bank **maintains strategic exposure to higher-risk, higher-return products**, such as Credit Cards, which grew +6.1% YoY, following a recent rationalization of the delinquent client base.

The **Corporate portfolio** — now segmented by company size — showed **weaker performance in the quarter**, with declines in both Large Corporates (-1.8% QoQ) and Micro, Small, and Medium Enterprises (MSMEs) (-2.0% QoQ). The result was impacted by the appreciation of the real, as a significant portion of the corporate loan book — particularly in Medium and Large Companies — is dollar-denominated. Still, on a yearly basis, we observed growth of +13.0% YoY in Large Corporates, driven by higher demand for corporate and agribusiness credit, and +17.7% YoY in MSMEs, mainly led by Medium Enterprises.

It is important to note that **Itaú changed its credit portfolio reporting structure this quarter**. Key changes include: **(i) segmenting agribusiness loans by company size**, and **(ii) including new exposures** in the reported loan book, such as **Credit Receivables Investment Funds (FIDC)**, transactions with **financial institutions**, and **agribusiness trading** positions.

Net Interest Income (NII): Solid Growth

Net interest income grew +3.2% QoQ and **+12.8% YoY**, reaching **R$ 30.3 billion**. The quarterly increase was driven by strong performance in both Client NII and Market NII.

Client NII rose +3.2% QoQ and +13.9% YoY, totaling **R$ 29.4 billion**. Growth was mainly supported by the **expansion of proprietary working capital**, reflecting the positive impact of fixed-rate interest and higher equity-accounted income. We also highlight the **increase in average volumes**, driven by the growth in the average yielding loan book for both retail and corporate clients, along with **improved spreads**, supported by a favorable liability margin dynamic.

Market NII delivered a positive surprise. While we had expected a decline, the line posted a modest increase of **+2.2% QoQ**, totaling **R$ 923 million**. The performance was supported by a **stronger trading desk result**. However, on a yearly basis, the line declined **-12.8% YoY**.

Fee and Insurance Revenues: Seasonal and Accounting Impacts

Fee and insurance revenues totaled R$ 13.8 billion, declining **-3.3% QoQ** but rising **+5.6% YoY**. On a quarterly basis, **seasonal reductions in transaction volumes negatively impacted key**

lines such as card issuance (-2.1% QoQ) and payment and collection services (acquiring) (-3.3% QoQ).

Additionally, **fund management revenues fell -11.6% QoQ**, as 4Q24 benefited from the recognition of performance fees, which are traditionally concentrated in 2Q and 4Q.

Lastly, the **implementation of Resolution 4,966** impacted the **credit operations and guarantees line**, which fell **-16.1% QoQ** and **-6.2% YoY**, as certain fees are now deferred rather than recognized upfront, as was done under the previous accounting model.

On a yearly basis, we highlight growth in **card issuance revenues (+4.7% YoY)**, **consortium management (+40.2% YoY)**, and **LatAm earnings (+22.5% YoY)**.

Credit Costs and Delinquency: Under Control

Credit costs totaled R$ 8.9 billion in 1Q25, up **+3.8% QoQ**, mainly due to **lower credit recoveries** (-19.6% QoQ) — a typical seasonal effect — as well as a **smaller volume of past-due portfolio sales**. On a yearly basis, credit costs rose **+2.1% YoY**, primarily driven by **increases in retail operations in Brazil**.

Loan loss provisions (LLP) reached R$ 9.5 billion, with a slight **decline of -0.7% QoQ** and a moderate **increase of +2.5% YoY**, still below the pace of credit portfolio growth.

Delinquency over 90 days (NPL 90+) fell -0.1 pp QoQ and **-0.4 pp YoY**, reaching **2.3%**, the **lowest level since 1Q21**. The main highlight was the **Retail (Individuals) segment in Brazil**, where delinquency dropped **-0.2 pp QoQ to 3.6%**, with notable improvements in personal loans and auto loans, both reaching historic lows.

NPL Formation totaled R$ 7.7 billion (-5.5% QoQ and -14.3% YoY), marking the **third consecutive nominal decline** and the **lowest level since 4Q22**.

Sales of Defaulted and Performing Loan Portfolios

Itaú sold R$ 201 million in defaulted loan portfolios in 1Q25, with **no impact on credit quality indicators**. The transaction generated a positive impact of R$ 7 million in credit recoveries and R$ 4 million in managerial recurring income.

In addition, the bank executed **sales of performing loan portfolios**, also with **no material impact on credit indicators**, with the following volumes:

- **R$ 32 million** in Large Corporates
- **R$ 59 million** in Retail (Individuals)
- **R$ 17 million** in Latin America

These sales resulted in a **negative impact of R$ 10 million on net interest and fee income**, a **positive impact of R$ 9 million on credit costs**, and a **negative R$ 0.4 million on managerial recurring income**.

Lastly, **loan write-offs totaled R$ 8.8 billion**, a **decline of -3.2% QoQ** and **-13.2% YoY**, supported by the improving trend in NPL Formation observed since 3Q24.

Administrative Expenses: Best Efficiency Ratio on Record

Non-interest expenses declined seasonally by -5.5% QoQ in 1Q25, driven by lower spending on variable compensation, marketing, advisory, and consulting. There was also a reduction in real estate expenses, aligned with the ongoing **branch network optimization**, which led to a **-9.3% YoY decrease in the number of physical units** in Brazil.

However, on a yearly basis, **expenses increased +9.8% YoY**, growing **above inflation**, mainly due to **strategic investments in technology** (+21.4% YoY).

The **consolidated efficiency ratio reached 38.1%**, the **lowest level in the bank's historical series**. In Latin America, the decline in expenses was primarily driven by lower personnel and technology spending, especially in Uruguay and Chile.

Tax: Benefited by Interest on Equity

In the quarter, the **effective tax rate** stood at **31.5%**, partially benefiting from the payment of Interest on Equity (JCP). **Earnings before taxes (EBT) posted solid growth**, increasing **+6.5% QoQ and a robust +16.1% YoY**, totaling R$ 16.7 billion.

Capital: Ratios Decline Due to Profit Distributions

In 1Q25, the bank's capital remained **at comfortable levels**, despite a decline in some indicators. The **BIS Capital Ratio stood at 15.7%**, down **-0.8 pp QoQ** and **-0.7 pp YoY**, mainly reflecting the **payment of dividends and additional JCP** related to fiscal year 2024, in addition to a **+3.7% QoQ increase in risk-weighted assets (RWA)**, driven by higher capital requirements for operational and market risks.

The **Tier 1 Capital Ratio declined to 14.1% (-0.9 pp QoQ; -0.4 pp YoY)**, while the **Common Equity Tier 1 (CET1) Ratio was 12.6%**, down **-1.1 pp QoQ and -0.4 pp YoY**.

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	Definition	Coverage
Buy	Expected return above +10% in relation to the Company's sector average	**49%**
Neutral	Expected return between +10% and -10% relative to the Company's industry average	**41%**
Sell	Expected return below -10% in relation to the Company's sector average	**5%**
under Review	Under review	**5%**

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