Transcription – 4Q23 Results

[Renato Lulia]

Hello! Good morning, everyone! I'm Renato Lulia, Group Head of Investor Relations and Market Intelligence at Itaú Unibanco. Thank you very much for joining our videoconference to talk about our earnings for the fourth quarter of 2023, which we are broadcasting directly from our office on Avenida Faria Lima, in São Paulo. This event will be divided into two parts. In the first part, Mr Milton Maluhy will explain our performance and earnings for the fourth quarter of 2023 and present the 2024 guidance.

Right after we'll have a Q&A session, during which analysts and investors can interact directly with us. I'd like to give you some instructions to make the most of today's meeting. For those of you who are accessing this via our website, there are three options for audio on the screen: the entire content in Portuguese, the entire content in English or in the original audio. For 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 corner 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) 93959-1877. 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 earnings and then I'll come back to you to moderate the Q&A session. Milton, go ahead!

[Milton Maluhy]

Good morning! Welcome to our fourth-quarter of 2023 earnings and the 2024 guidance presentation. I'll go straight to the figures so that I can bring you some more information and then we will have enough time for the Q&A.

Firstly, our earnings in the quarter totaled BRL9.4 billion, a growth of 4% from the previous quarter.

As a result, we delivered a consolidated ROE of 21.2% with a 10 basis points growth in the quarter. In Brazil, ROE reached 22.2%. Moving on to revenue generation, our NII grew 3.3% in the quarter, reaching BRL23.2 billion. Commissions and fees and results from insurance operations posted strong growth of 4.6%, reaching BRL13.5 billion for the quarter. All this with sound credit quality indicators.

The consolidated NPL over 90 days posted a drop of 20 basis points. The NPL for individuals, dropped 50 basis points. These are major results that show an evolution in the credit cycle. We've ended the quarter with a Tier 1 capital ratio of 15.2%, an increase of 60 basis points.

The individuals portfolio grew 1.9% in the quarter and 4.1% in the year. The SMEs portfolio grew 2.6% in the quarter and 3.5% in the year. The large corporates portfolio grew 8.7% in the year. Thus, the total growth of the Loan Portfolio in Brazil was 5.7% in the year. In Latin America, the results were affected by FX.

As a result, the total portfolio grew 3.1% in the year and, excluding FX variation, growth was 5.3%.

It was a year in which we focused on de-risking of the portfolio and we've been working more intensively on target clients and reducing the portfolio's exposure to non-target clients. We posted sound growth in the segments on which we focus: the Personnalité and Uniclass Loan Book grew 16% in the year, and 5% in the quarter.

In Payroll Loans, we continue to grow in the private and public sectors, both quarter over quarter and year-on-year. There was a decrease in the public pension segment as a result of the caps that were put in place on interest rates. Therefore, we stopped serving a population that increasingly demands a social security-based payday due to these adjustments.

Another piece of news worth sharing with you is that we had a nominal reduction of BRL1.9 billion in the renegotiated portfolio, a drop of 4.6% quarter over quarter. This shows that our portfolio is good quality with sound credit indicators.

It was a great quarter for clients' NII, up 3.3%, or BRL700 million in 4Q23. This growth was well distributed across our product mix, volume, spreads and liabilities margin, and Latin America. We've isolated the effect of working capital, which starts the quarter at BRL3 billion and ends at BRL3.1 billion. The one-month earnings of the operation in Argentina, which was recorded in the third quarter earnings, was also isolated. Thus, core growth was 3.3% quarter over quarter.

Another piece of positive news was the expansion of the consolidated NIM: from 8.9% in the third quarter to 9% in the fourth quarter. The risk-adjusted NIM also increased from 5.6% to 5.8% in this period.

The risk-adjusted NIM of the Brazilian operation increased from 5.9% to 6.2% in the quarter, and the total NIM for Brazil reached 9.8%. I believe these are very positive messages for the financial margin with clients.

In the financial margin with the market, the fourth quarter was similar to the previous one, with a sound result of BRL800 million, with similar dynamics both in Brazil and in Latin America. The slight expansion in the quarter was due to the lower impact of cost for capital hedge. This shows that we've been delivering good risk management as shown by our solid financial margin with the market performances, despite the scenario of adversities and difficulties throughout the year. The financial margin with the market totaled BRL3.3 billion in 2023, versus BRL2.9 billion in 2022, which shows major growth in a year during which we faced material challenges.

It is worth mentioning that we met the 2023 guidance in all the disclosed lines, with the exception of the estimated growth of our loan portfolio, which was below the disclosed expected range. This performance is explained by the difference between the projected FX rate for 2023 used in our budget and the actual FX rate for the period.

Commissions, fees and results from insurance operations were also within guidance, up 5.3% year over year and 4.6% quarter over quarter.

The highlight in the fourth quarter was the strong growth in credit cards due to seasonality. We've posted major progress in advisory services and brokerage fees. Net inflows increased 70% quarter over quarter and 7.4% year over year. This results from all the work of the last few years and shows that we are moving in the right direction. The latest acceleration is very positive.

The transaction volume in the acquiring business grew 17.5% year over year, while revenue was up 20.4%. This performance reflects an appropriate product mix, which has allowed us to increase revenue above the traded volume.

In insurance, earned premiums increased 11.2% in the year, with recurring income growing 19.6% in the period.

It is worth emphasizing that we've seen a significant growth over the last three years in this operation. This performance shows that both the course and strategy designed for this operation are being well executed.

In terms of credit quality, we draw attention to our short-term delinquency rate, which is absolutely under control, and shown by its stability both in Brazil and in Latin America.

The long-term delinquency rate, measured by NPL 90 days, decreased 20 basis points in Brazil and in total, and in Latin America there was a slight increase of 10 basis points in the quarter.

This underscores that the short-term delinquency is under control. Short-term NPL in Brazil remained stable in the individuals portfolio and had a slight growth of 10 basis points in the SMEs portfolio in the quarter. For the large corporates portfolio, this is not the most appropriate indicator to monitor, as I always say, but nonperforming loans are also well behaved.

After four quarters of stability, the long-term delinquency rate of the individual portfolio decreased by 50 basis points and ended the period at 4.4%, which we consider a sustainable level.

The NPL 90 for SMEs and large corporates remained stable. Generally speaking we posted very sound credit indicators, with good developments and stabilization throughout the year, which is very good news for credit quality!

Cost of credit reached BRL9.2 billion this quarter, a nominal amount below the prior quarter. The indicator that measures the cost of credit over the portfolio decreased in the quarter from 3.2% to 3.1%.

This was the second consecutive quarter in which there was a drop in the individuals portfolio's NPL formation, which shows that the portfolio has reacted favorably. Cost of credit rose from BRL32.3 billion in 2022 to BRL36.9 billion in 2023, slightly above the best scenario in the guidance range, which was between BRL36.5 and BRL40.5 billion.

There was a nominal drop in the renegotiated portfolio, which now accounts for 3.3% of the portfolio. This performance shows another good development and trend for the portfolio.

There was no major highlight in the coverage indexes, which showed a slight increase in total coverage from 209% to 216%. We have a very well-provisioned portfolio, with an adequate level of coverage and sound, consistent results.

Opex or non-interest expenses as we call them are normally under greater pressure in the fourth quarter. In Brazil, this line grew 8.5% year over year, and in Latin America excluding Brazil, it fell 4% in the period. On a consolidated basis, non-interest expenses increased 4.1% quarter over quarter and 6.5% year over year.

In the fourth quarter, we also recorded one-off investments, such as the remodeling of Itaú's brand, which put a little more pressure on this line in 2023. We've been keeping up with our financial discipline, which can be seen in the efficiency ratio trend, which has reached its best historical level.

The efficiency ratio was 39.9% on a consolidated basis and 37.9% in Brazil, including all expenses. This shows a major development. And we've achieved this by reducing core costs, which grew by 1.6% in the year, well below inflation for the period. This is a trend we plan to continue working. We continue to actively work and invest in the business and in the future of our operation.

This includes key investments in new businesses and technology, which explains the increase in the year, disregarding Latin America in this analysis.

The guidance range for non-interest expenses was between 4% and 8% and we remained within it by recording growth of 6.5% in the year.

We have good news on capital. We were able to expand our capital ratio for another quarter, ending December with 15.2% in Tier 1 capital ratio, of which 13.7% at Common Equity Tier 1 and 1.5% at AT1.

The last bar in this chart shows the proforma capital for December 2023, considering the dividends that we just announced last night.

We have two key messages on this: the first is that we are reporting material extraordinary dividend, amounting to BRL11 billion, which will be paid in March along with interest on capital of BRL4.3 billion that had already been announced, meaning there's BRL15.3 billion to be paid in March. This amount of interest on capital is already net of taxes. In 2023, we paid BRL6.2 billion in interest on capital, also net of taxes. This totals a cash payment of BRL21.5 billion in dividends and interest on capital in 2023. Thus, the payout for the year was 60.3%.

Once this payment is made, the core capital ratio will be adjusted to 12.8%. There are some uncertainties ahead of us and that is why capital management discipline is needed to conduct our business.

Now let's move to the 2024 outlook, and I will start by sharing our macroeconomic projections: we expect Brazilian GDP to grow 1.8% in 2024, the interest rate (SELIC) to reach 9.0% at the end of the year and inflation 3.6%. Unemployment should be slightly stable at 8.0%, and the exchange rate at BRL4.90/USD, also slightly stable.

I now present to you our consolidated 2024 Guidance, which is based on a growth expectation between 6.5% and 9.5% for the Loan Portfolio and growth between 4.5% and 7.5% for the NII with clients. It is worth noting that we also present the expected growth on a comparable basis, excluding the effect of the sale of the operation in Argentina in 2023. With this adjustment, the expected growth for the NII with clients is between 5.5% and 8.5% on a comparable basis.

The financial margin with the market should be between BRL3 and 5 billion.

Our expectation for the Cost of Credit between BRL33.5 and 36.5 billion in 2024 reflects a major decrease when compared to the Cost of Credit in 2023, which was BRL36.9 billion. Our worst-case estimate for the cost of credit in 2024 is already nominally below the cost of credit in 2023. We tend to look for an even better result.

Commissions and fees and results from insurance operations are expected to grow between 5% and 8%, and between 5.5% and 8.5% on a comparable basis with the proforma adjustment from the sale of Banco Itaú Argentina.

Non-interest expense is expected to grow between 4% and 7% as adjusted for the same effect on a comparable basis, growth is between 5% and 8% The goal is core cost to grow below inflation so that we can continue to invest in our operation.

The tax rate is expected to be between 29.5% and 31.5%.

Our goal is to keep delivering ROE above 20%, and these figures reflect that goal.

I am very pleased with the earnings achieved in 2023, the course that the bank has followed, and the way we have mobilized, advanced, and invested in the business. Cultural transformation has had a very material impact. Digital transformation has materialized in several of the figures we presented today. There are challenges ahead. No one is being complacent; on the contrary, we are very focused on delivering even stronger earnings in 2024, as shown in our Guidance.

Now I'll be joining Renato for our traditional Q&A session. See you in a little while and thank you very much.

Q&A

[Renato Lulia]

Milton, thanks for the presentation. Everything's right, Broedel? Now we kick off our question and answer session. As you've already seen, besides Milton, who is always here with us, we have our CFO Alexsandro Broedel for this Q&A. Just remember this session is bilingual, that is, we'll be answering questions in the language they are asked. In the case anyone needs some kind of help in translation, you'll have the option to choose the audio either in Portuguese or English. You can also send questions via WhatsApp to 11-93959-1877. Well, there's a long list of questions here. Milton and Alexsandro, let's get to the first one, shall we?

[Milton Maluhy]

Let's get going! Good morning.

[Renato Lulia]

The first question already here on the screen comes from Renato Meloni from Autonomous. Rafael, hello there, good morning! Welcome to our earnings call. Thank you for asking the first question.

[Renato Meloni]

Thank you, good morning everyone. Thanks for this opportunity. Firstly, in relation to the guidance: looking at the range of credit portfolio growth and at the client margin growth you are presenting, this could imply a reduction in your NIM. Could you please elaborate on what you see, whether there's really a reduction? Especially because the message conveyed so far has been one of an expected stable NIM for 2024. Secondly, what's your perspective for dividends over this year? If the portfolio grew to reach 19.5%, could you sustain a similar payout? It would be great to have some more details about these issues, thank you.

[Renato Lulia]

Thank you, Renato.

[Milton Maluhy]

Thank you, Renato. Firstly, good morning, thank you for the question, as it's important to clarify this issue of the guidance for portfolio. The first message is that the portfolio in the guidance is a top portfolio and the margin refers to the margin realized in the period, which means it refers to the average portfolio over 2024, which will be lower than financial margin with clients, even though this information is not in the guidance. It's important to look at the average portfolio balance, as it generates the financial margin seen in the guidance. That's the first issue to consider. The second one is that, looking at the track record here, we've managed to increase this margin with considerable quality. It's paramount to consider the associated margin not only because of the Argentina effect, which explains another percentage point in growth. If we excluded the Argentina effect, we'd grow seven percentage points at midpoint. It's also critical to take into consideration the cost of credit, which has a nominal reduction, meaning that the NIM of the cost of credit will increase. The portfolio grows, the margin grows, and the cost of credit falls.

We expected NIM to be stable over the year and, adjusted to the risk, we understand that we can have opportunities to make some adjustments throughout the credit cycle. Remember that this will largely depend on the mix of the portfolio's growth, which can be seen here in the consolidated figures. Our margin is increasing above the average portfolio balance in the period, net of cost of credit much stronger; if adjusted to the Argentina effect, it would increase 7%.

A point of interest for everyone is clearly the issue of dividends. What's been our decision? Let's go back in time, to the moment we decided to reduce our risk appetite under the bank's risk management. We've always talked about 11.5, which is the capital set approved by the board of directors and the risks and capital risk management committee. We believe that 12 would be a level suitable for dividend policy purposes.

Looking ahead, we foresee some uncertain events and also some events that are certain and calculated, such as BIS credit risk, BIS III operational credit risk that will arise in 2025. These events could have an impact of about 42 basis points. And a second key issue is the upcoming tax reform. If the tax reform, currently pending at the Brazilian Congress, were approved exactly as it had been originally designed, we'd have to record impairment of deferred tax assets. Why is that? Because the corporate rate would be reduced and we'd have to reassess this line in the bank's balance sheet. Although the corporate rate is economically positive over time, we'd have to reduce an asset and thus generate an impairment that would affect capital. Looking ahead, even with all these uncertainties and our capacity for growth, our perspective is positive for this year we're just entering. We'll look at any and all opportunities to grow that makes sense through the cycle. We'll indeed grow, without a doubt. Taking into consideration the portfolio growth and what lies ahead in terms of Basel ratio, operational and credit risks, a possible tax reform and other uncertainties, we've decided to make dividend payments, adding to the interest on capital already declared and payable of R$4.3 billion, to be paid on March 8, 2024, plus R$11 billion as extraordinary dividends. We believe a payout of 60% will be quite fair. Overall, we're paying out R$21.5 billion in the year, if we consider the amount already paid and what will be paid in March 2024. This is certainly significant, as it's roughly three times the 2022 dividend. And what is our policy moving forward? What needs to be very clear is that it's not about retaining surplus. We'll look at the uses and sources over 2023, I mean, how we're actually generating and using this capital, whether with organic or inorganic opportunities, portfolio growth or regulatory changes, even a possible tax reform that lies ahead. We'll then prepare our projections for the coming year. As I understand it, our decision is to distribute this capital surplus. Therefore, this extraordinary dividend must not be seen as a one-off event, but rather as a significant dividend. Looking ahead, whenever we record some surplus, disregarding all the effects I've mentioned, we'll continue to pay extraordinary dividends and disclose more information, results and potential effects.

[Renato Lulia]

Thanks, Milton. I could see dividends would be the first question to come through.

[Milton Maluhy]

That's right, me too.

[Renato Lulia]

The second question comes from Gustavo Schroden, Bradesco BBI. How are you doing, Gustavo? Good morning, welcome to our call.

[Gustavo Schroden]

Good morning, Renato, Milton, and Broedel! Congrats on the results, not only for the quarter, but also for the year. I'd like to keep on addressing the guidance, even taking advantage of Milton giving a soft ROE guidance, an expected minimum ROE of 20%. This should be our starting point, as I do think it seems a bit conservative coming from you. Can you tell us what to expect from the guidance, the main lines where we can work more at the top end, where we can be more at the midpoint or perhaps stay at the lowest point. We see a major upside in the ALL line, assuming the NPL trajectory we've already seen. Could you please elaborate on these main lines and where we can work more above and below the guidance, where we stay in the middle, and whether we can assume your 20% ROE as conservative? To me, it's somewhat conservative, but I'd like to hear from you.

[Milton Maluhy]

Thanks, Gustavo. Hopefully you're right, we'll work hard to make sure you're right. I believe the guidance is our best estimate. Of course our estimates are based on a budget process, and there's been a time gap. We always review line by line to have the best information available for you, and to me the midpoint of these lines is always a good general reference. We recorded a very strong ROE at 22.2 in Brazil last quarter. If we had paid out dividends the way you see it here, the result would have been 23.4 as Brazil's ROE. I mean, the dividend effects also generate a base effect that improves ROE. It slightly reduces the bank's profit for the year, obviously due to working capital, but it improves the ratio and makes for a slightly better ROE. We'll be looking for opportunities over the year to grow the portfolio, although I think a midpoint of eight is fairly reasonable due to the exchange rate variation in Latin America, which is always a very uncertain issue. Therefore, setting the exchange rate variation aside, opportunities for a stronger portfolio growth may arise over the year, depending on the scenario and the credit cycle outlook. To me, working above 20 is a good reference, as historically we hadn't had ROE guidance and now we'll work above 20. Or could it be slightly above 20? Of course it could, and we'll try to deliver a fair yield given the scenario and opportunities that may arise. Our cost of credit has been superb. You've been following the bank for many years, and we really experienced a harsher cycle, with some portfolios actually suffering more than others. Credit cards, with R$135 billion, are a top portfolio for us, like the vehicle portfolio, with R$33 billion. These two portfolios end up being more impacted. There's some good news supporting your view, as we're optimistic about the cost of credit. Our NPF -90 for the vehicle portfolio fell for the fourth consecutive quarter, and the third consecutive quarter for the cards portfolio is also good news. The individual's portfolio fell 50 basis points, while the cards portfolio fell basically the double, with nominal figures growing less. It demonstrates that cost of credit is under control. The guidance has a certain level of uncertainty. Why is that? Because we have a massive wholesale business portfolio and things happen. We expect a gradual reduction in NPL for the wholesale business, as I've been telling you for some time. 2023 was a fairly positive year, except for the one-off event of company Americanas in January. Our portfolio has a fairly well-behaved cost of credit, below the historical lowest levels when we look at a longer series. We expect a reduction in the ratio for this year if this event or another one for which we have no proper provision do not occur. We can certainly end up consuming a bit more of the ranges of the guidance here. I look at the cost of credit in a very positive way. The other lines are clearly very well calibrated. Take cost, for example: as a lot depends on us, it's something we have under control. The portfolio, margin and the cost of credit are elements we'll have to monitor more closely, depending on these events I've just mentioned. We're updating these figures over the upcoming quarters and hope you are right. We'll be working hard to deliver ROE above 20%.

[Renato Lulia]

Crystal clear, Milton. Thank you. Moving on to the next question, which comes from Mário Pierry from Bank of America. Hello there, Mário. Good morning!

[Mário Pierry]

Morning, everyone. Congrats on the results, and thank you for taking my question. Milton, could you please elaborate a bit more on the guidance for credit growth, break it down for us? I mean, which credit lines do you expect to have a higher growth? To me, taking the points you've just mentioned, we can see a very positive situation, with default rates falling, the bank very well capitalized and growth seeming a bit small, considering that you are talking about a nominal GDP growth of 5.5 - 6 %, with portfolio growing by 8%. It would be great to have your insights, product by product.

[Milton Maluhy]

Great, Mário. First and foremost, thanks for your question and compliment.

Firstly, let's look at the portfolio. I'll broaden the scope: we expect that companies, either retail, small and middle-market or large companies, to grow above the midpoint you've just observed, as they effectively push the midpoint upwards. Individuals tend to grow less than the midpoint and there's a very clear reason why. We'll undoubtedly expand into products that make sense in the target segments where we are growing above double digits. There's a double effect here. The first one is that, for individuals, the renegotiation portfolio fell, which is good for the balance. This reduction is also good for the cost of credit, but naturally not good for the balance. The second effect is that we've made the decision to nominally reduce some portfolios, with some major reductions saving roughly 200 points in NPL 90. If we had kept the same growth mix we had pre-pandemic, today we'd be running, in the individuals portfolio, at about 6.4, 6.5 NPL-wise, 200 points above. You have growth opportunities, with mortgage loans soaring during the pandemic, with very low interest rates and massive demand. Demand dropped due to higher interest rates, although we continue to maintain a good production market share, with nominal prices falling. Payroll loans for INSS beneficiaries are also under pressure, as it's a key portfolio for us due to the caps that were placed. Some effects work against us, whereas many opportunities also arise. We've been able to grow above two digits in the middle- and high-income segments. Although we've derisked the cards portfolio, we grow strongly in the bank's target segments. Mortgage loans will experience a certain slowdown, as did the consumer credit in the last quarter, although it was a one-off event due to reductions in revolving credit as a result of inflow from Christmas bonus and higher income in the last month of the year. There's also the effect of the renegotiation portfolio, which tends to continue falling. In overall, this is what we have on the mix, and we expect good performance from the corporate portfolio, which will heavily depend on the capital market. Of course we'll give preference to the capital market, the cheapest financing instrument for large corporations. As we are the leaders of this segment, at the end of the day it's the cross-selling that generates client engagement. The effect of Latin America operations is always more difficult to predict, due to the currency depreciation implicit in the figures and the exchange rate that can constantly vary over the year. Breaking down the portfolios, we're quite comfortable with the mix that we have. If opportunities arise, we'll grow further and, most important of all, the NIM will continue stable and expand, especially the risk-adjusted NIM. The main messages are the growth above average, the falling cost of credit, and the improvement in financial margin over the year. We're quite comfortable with this level of growth and we'll certainly take advantage of any opportunities that may arise. Our focus is on providing good client service and continuing to maintain a high level of principality and engagement and, above all, keeping NPS at the bank's highest levels.

[Renato Lulia]

Thanks, Milton. Straight to the next question then. We have here Rafael Frade from Citibank. Good morning, Frade. Welcome to our call.

[Rafael Frade]

Morning, everyone. I appreciate the time and your taking my questions.

I'd like to follow up on two issues, once concerning the NIM. You've already made it clear you expect certain stability in the NIM, but over the last two years you've emphasized that the liability margin has been a key contributor to the improvement in the NIM. I believe that can be the case less for 2024, but more for the end of 2024 and then consequently for 2025.

I'd like to ask a second question to follow up on the issue of the cost of risk. It's clear that the guidance accommodates some variation for the corporate segment, but I'd like to understand a bit more about the retail business. In the fourth quarter, the NPL formation is already at the 2019 and 2018 levels, but you made an important shift in the portfolio so the impression today is that it's a safer portfolio than it was in 2019, 2018. Specifically in retail, could we see an NPL formation for 2024 perhaps a bit below than the historical series? These are my questions. Thank you.

[Milton Maluhy]

Thanks for the questions, Rafael. A pleasure to see you again. Let me start with the NIM. Liabilities for us are core and we've actually managed to grow significantly. Our net cap grew by 70% last quarter. We don't disclose an absolute figure, mas these were strong figures, I can guarantee. There's always the effect of interest and volume. By combining these two you have the effect on the NIM. Margin for this quarter was very significant. The second issue is that we hedge the financial margin with clients, whether for working capital or liabilities. We perform hedging with longer vertices, which demonstrates that during a longer cycle we have a greater level of stability in remuneration. There's always a reduction in margin, the working capital margin is reducing, but the PL increased and there was an increase in KG in volume, now excluding the extraordinary effect of this dividend, and liabilities have soared. Demand also soared for the bank's own products which, naturally, escalate this effect. We think 2024 will be a good year for volumes, with investment rates and hedges tending to become more sensitive to the effects of the SELIC, the long-term basic rate. All this has reinforced our view that NIM is very sensitive to interest rates, as I've mentioned for some time. This is further proof, based on the cycle we've had, that our NIM is indeed quite stable and independent, as we are able to work on both sides of the equation. Interest clearly tends to fall and should stabilize at roughly 9. We don't think we'll have a drop in interest rates like in these past months, which also makes room for some portfolio growth, with increases in volumes and assets. NIM tends to be stable, regardless of this pressure of liabilities, with volumes more than making up for any effect of interest rates, which is very positive, as it evidences the success in the investment strategy and entire review made in offers and the platform. Our relative

NPS, fully measured by an external company, has outperformed our main competitors and incumbents. We continue to move forward to offer an increasingly better offer in the new investment platforms. The positive news is that this year was the best, in terms of investments, for our relationship with these platforms. We had a few months of net positive funding in relation to some of these players and ended up delivering a nominal net cap higher compared to competition, thus evidencing our good work. This point is paramount.

The second aspect here concerns the NPL. The portfolio has better vintages over the cycle, with NPL 90 lower than in the pre-pandemic period, which means that we continue to perform well. NPL creation tends to either drop or remain stable. Looking ahead, we forecast a decrease in the individuals portfolio, with two consecutive quarters with reduction in formation in individuals. We believe that this is a good trend. We recorded a greater outflow for write-offs under regulatory rules, which was due to the portfolio formed in previous periods, with all renegotiations, accumulation of balances, among others, during three quarters. We believe we continue to have a very positive formation, with nominal cost of credit in the retail business gradually reducing. Portfolio growth and expanding margins are always good news. Overall we can deliver a very positive NIM, with a certain expansion in risk-adjusted NIM, for the last few quarters.

[Renato Lulia]

Perfect, thank you Milton. Let's link it to the next question, which comes from Thiago Batista, UBS. Good morning, Thiago. Welcome to our call.

[Thiago Batista]

Good morning, Lulia, Milton, Broedel, Gustavo. My question concerns efficiency. Milton commented that the bank's efficiency is already at a historical minimum of 40%, which is clearly a good number comparing to the figures of the bank itself or traditional competitors. However, it's still above some digital banks. If you stick to traditional banks, let's take Banorte, for example. Although I recognize that it's not the same accounting standards, Banorte in Mexico operates with 36% efficiency. Would it be possible for you to reach 35, 36%? Or would this 40% be a reference?

If I can ask a second question: In terms of credit cards, we saw that Itaú's cash installment level increased significantly over 2023. Last year was at 31% and this year it closed at 35%. This trend did not occur or at least not in the same level of the data from the Central Bank. To what do you attribute this difference? Was it just the mix of products focusing on higher-income clients? Could you please elaborate a bit more on these two issues?

[Milton Maluhy]

Good. Let me start with the second issue, just to follow the sequence. Thank you, Thiago, for being here. It's good to see you again.

The explanation for cards is the mix. In the end, our unfunded portfolio is higher than the market portfolio. We recorded 85% of unfunded portfolio this last quarter, so it's a major figure and I always talk about the effects of interest, as of our R$135 billion in credit card portfolio, R$115 billion are interest-free and therefore R$20 billion is the financed portfolio. In the last month, especially in the last quarter, we have a seasonal effect due to larger purchases and volumes. It tends to be a significant increase in demand payments and in interest-free installments, depending on the mix and the purchasing profile of clients. The main explanation is the mix and also derisking the portfolio. We reduced credit granting for higher risk segments, whose operation was clearly harming the value for our stockholders. We've decided to rebalance the portfolio with more focus on a more sustainable mix in the long term. We don't look at cards separately as a product, but rather within an overall relationship with the client, apart from those products in open sea and monoliner segments. However, clients think we regard cards as another product in our relationship. We are having a major growth in these segments, and as we are more focused on a more affluent client, on the average in the market, it ends up pushing our interest-free mix into a slightly higher level compared to interest-bearing mix. We must see some normality. Given the profile and adjustments to the portfolio, the financed portfolio tends to grow a bit more compared to the interest-free portfolio due to the seasonality of the last quarter of the year.

Now I'll give the floor to Broedel, who will talk about efficiency. Beforehand I'd like to make some general comments that I think are significant. The first comment is that we must look at the bank in the mix, then look at the bank's efficiency ratio, and at the consolidated figures. This comprises a series of businesses, and we have different efficiency ratios in our operations. The wholesale business features certain figures, whereas the retail business features others. There are also the consolidated figures in Latam operations, figures without Latam; in Brazil we're running at 37.9, evidencing that Brazil figures are falling. The second major issue is that clearly the right course, strategic-wise, is to be efficient. We've been evolving efficiency-wise, not only today but over the course of a few years. It concerns or culture and DNA, and we understand that there's room to continue making headway. The cost and efficiency ratio may reach 30 and 35. Anyway, whatever the level, the important thing is as you start reducing the ratio and become more efficient, part of this efficiency tends to go to the pricing. Therefore, it's not true to say that the efficiency ratio only falls and falls, because as you become more efficient you become more competitive. It concerns the revenue and cost ratio with which we work at the bank. Our efficiency ratio is a benchmark in a global scale for a bank of our size. There's a series of initiatives with which we've been working very hard to segregate wholesale from retail business events banking and all technology investments made, including digitization ones. Core costs are falling, increasing below inflation, and the trend is to continue increasing below inflation. We have a very strong inertial fact that is the payroll due to collective bargaining agreements – its inflation is higher than the inflation measured by the broad consumer price index, or IPCA. IPCA alone doesn't translate the banking inflation running at a higher level. Broedel, could you please elaborate a bit more on these points and on what we've been working here internally?

[Alexsandro Broedel]

Awesome, Milton. Thanks. As Milton has mentioned, at the bank here we aim for an efficiency program that generates consistent results in the long term. We don't want the efficiency ratio to be volatile, I mean, having gains in some periods and losses in others, which is often called the yo-yo effect. The bank's cost varies a good deal. And we want to make consistent and recurring gains. This point brought by Milton is a major one, as the efficiency ratio is not an end in itself because it depends on the business mix operated by the bank, and businesses structurally have different efficiency ratios. We have a program that involves more than a thousand initiatives, and these initiatives are focused on initiatives such as automation, cost reduction through more digital processing, and cloud migration. It's important to have one program for the entire organization, as there's no "silver bullet", all initiatives are important and they are effectively implemented and monitored. We have great control over the bank's budget also due to the initiatives we've implemented. Savings are not ultimately used and, to me, the most important thing is the good cost management and efficiency ratio. At no time are we sacrificing investments deemed significant to reach a given level of cost or efficiency. Why do I say so? Because many times, due to an accounting issue, key investments bear costs that are a concern. There's the issue of amortization of technology investments already made. Our discipline, which is a program, is to be consistent over time, we don't give specific guidance as Milton mentioned regarding efficiency, but we want to seek efficiency that is sustainable, achievable and ongoing over time. We can do this by maintaining the level of modernization of our platforms and greater client focus, among other initiatives. Thiago, the efficiency ratio is inserted in the broader context of the bank's management, it's not an independent goal. Having said all that, we think there are still important improvement opportunities.

[Renato Lulia]

Thanks, Alexsandro and Milton. Now moving to the next question from Bernardo Guttmann from XP. Everything's all right, Bernardo? Thank you for your question.

[Bernardo Guttmann]

Good morning, Milton, Alexsandro, and Renato. Thank you for the opportunity here. I'd like to better understand the bank's funding composition strategy. In recent quarters the share of exempt instruments has increased and, with new regulations, these instruments should be more restricted for issuance. What is Itaú's reading of the impacts on the system? For the retail and wholesale business. What is the market inventory you estimate in these instruments after the changes? Thank you.

[Milton Maluhy]

Thank you, Bernardo. Look, this is a new topic. This CMN resolution was issued last week, so we're poring over it yet. What I can tell you in advance is that undoubtedly exempt instruments have a share in the system funding as a whole. They are growing over the years, we had the creation of the secured real estate bill, or LIG. And one could use the double guarantee of the LIG with the LCI, the real estate credit bill. To give you some big numbers, the exempt ones on the bank's balance sheet today represent something like 15% of our funding. They are important without doubt, but limited to 15% of our whole funding volume. In this recent change, practically two thirds of our funding was not affected, so we're talking about a reduced impact, limited to a third of 15%, roughly 4.5% of the total bank funding. This is the materiality. There's a natural outflow of funds, a migration. If there are no exemptions, you'll offer new products and this is a systemic vision. Given our client relationship level and our capacity to generate guarantees, there are no major impacts on the bank's funding cost, I would say it's immaterial. We'll replace these instruments with others, such as CDBs or financial bills that make more sense at that moment for investors and will have some impact here on our funding cost, but it'll be immaterial. Although difficult for the system now to carry out an assessment, there's a mapping with a global view to measure the impact. It depends a great deal on the capacity to generate guarantees, the business profile of each institution, their management, the share of exemptions in the total funding of each institution - 15% in our case, but we can be smaller or larger in others. It's very hard to make a market assessment. I think each bank will start to disclose the impacts on its own activity. We're once again poring over the standard to understand details. There will be some impact but not material in view of the volume of our funding. Our shelf of products continues to be large: with this 360 investment vision, our focus is to offer the best investment for clients in that cycle. Our investment executives, all advisors, are evaluated based on the profitability of the client portfolio rather than by product sales. We'll have the best shelf, with open-end products, funds, fixed-income securities, other investment products available to the client. In the case of any type of migration, we'll be able to retain this asset under management or under custody within the bank. There won't be even an impact on our client relationship, as we'll be able to have efficient alternatives.

[Renato Lulia]

Now let's move on to English, as next question comes from Tito Labara from Goldman Sachs. Hi, Tito. Good morning, thank you for joining this call.

[Tito Labarta]

Hi, good morning Renato, Milton and Alexsandro. Thanks for this call and for taking my question. I'll follow up on the question previously asked by Thiago about efficiency, but from a slightly different perspective. When we consider the guidance, core expenses increased below inflation, but you are growing above inflation this year. You've made about R$3 billion in business and technology investments, so what time horizon is necessary to continue making this type of investment? My question is posed amid the context of a competitive environment, with more and more digital players becoming increasingly relevant. I'd like to understand your position.

It was also a very strong quarter for cards, both issuer and acquirer. There's been a lot of competition on both sides. How much of his quarterly growth was due to seasonality? Given the credit cycle seeming a bit better, are you going to be more aggressive? Some competitors have announced that they are trying to privatize their acquiring business. Could you please comment on the dynamics of competition in the credit card market, both issuer and acquirer? What's your opinion?

[Milton Maluhy]

So good to have you here with us. Thank you for joining our call, Tito. First of all, let's comment on the efficiency ratio. The bank will always invest in the long term, as we're not looking for an efficiency ratio in just one or two quarters. Especially our technology investments are very robust. We had 8,000 FTEs, and now we're operating with 15,000 FTEs in a four-year horizon period. We've stabilized for the last two consecutive years. We believe we've reached the level of FTEs required to carry out all the digitization and modernization of our platform. Our idea is to keep on carrying out this key project, as we have to conclude whatever needs to be modernized. We're 2/3 of the way through, and still have investments to be made over 2024 and beyond. Most importantly, whenever we make an investment, we amortize it in subsequent years.

We'll see strong pressure arising from the investments made in recent periods, over these years, and we're able to absorb this amortization in our results. We should implement an increase in amortization, and expect stabilization in the long term. This is very positive as we'll have a cycle where the investment volume will be very similar in the coming years, unlike previous years that featured a very low volume and there was this curve of increasing technology investments. Part of these technology investments is intended for more operational efficiency and productivity, as this is the cost of investment amortization. On the other hand, you take the pressure off the bank's management costs in these periods. We believe that the level of FTEs is suitable, and there'll also be some stabilization in this investment level. Technology is core, as it's much more than just outlining the modernization of the platform and reducing costs. We must continue managing the business and modernizing the platform every day to achieve the best client experience. This will continue to be the trend and our focus. Core is very seasonable when it comes to credit cards. The credit card portfolio increased a great deal, especially in side payments.

It's no longer buy now and pay later, there' a seasonality and we're not trying to increase risk appetite or take more risks than necessary, but rather to reduce the portfolio risk, mainly in some segments. We've recorded a robust increase in segments such as Uniclass and Personalitté and other very resilient clients through the cycle. This is our main focus.

The acquiring business has been very successful driven by the integration of Rede and its benefits. We cannot look at Rede's results as in the balance sheet of an individual company. Why is that? Because Rede is fully integrated into Itaú Unibanco. You have to look at the retail business operation, rather than just at the results, since this will show the full picture of how we manage and see the business.

It's seen as a new product for the client relationship, which is fundamental and you are able to bring the best talk or product to the client. Acquiring company Rede is one of these products. Rede had a very strong 2023, with a robust recovery in terms of results. Looking at Rede's results, we can take its working capital and bring into the company. All working capital that benefited from the interest rate is not included in the business model.

This point should be analyzed in the same way as other companies with a standalone balance sheet and huge working capital. It should be excluded so it's possible to compare their business with ours, as the working capital is not included in Rede's balance sheet under our business model, but it's otherwise recorded at the corporate level. This is just an example. Another one is that advances and business cross-selling are included in the bank's balance sheet. You won't be able to see the full picture If you look only at the take rate, considering Rede's balance sheet. The figure we see is fully different from what the market sees, and for us it's an integration business. I used to be

CEO of Rede and back then 2/3 of the profit came from the open market, I mean, clients who had no relationship with Itaú Unibanco.

Today it's the complete opposite. The relationship has to do with engagement, principality, and cross-selling. As integration was carried out at the right time and in the best possible way, we're getting the rewards now. Looking ahead, we see many benefits to be achieved. Competition will always be there and you might see some moves from one player or another - that's life. We must continue carrying out the integration, as we're at a key position, well advanced in relation to the market, to deliver a unique value proposition to our clients. That's what we'll be seeking in the coming quarters.

[Renato Lulia]

Crystal clear, Milton.

Now going back to Portuguese, the next question is already with us here from Guilherme Grespan from JP Morgan. How are you, Grespan? Welcome to our call.

[Guilherme Grespan]

Good morning, Lulia, Milton, and Broedel. Thanks for taking the questions. We'd like to talk about ROE by segment. Retail improving draw our attention, and it sequentially going back to levels above 20% ROE. Breaking it down, it seems much is due to the cost of credit. Could you just elaborate a bit on it, Milton, whether this improved ROE has to do with the mix? You've been talking much about growing in the Personnalité and Uniclass segments. As the balance of these segments is higher in the ROE weighting, obviously consolidated ROE is higher in this segment. Or is the ROE of lower income segment improving? At times the NPL of the low income segment is 3, 4 times greater compared to the high income one. It's fair to say that this low-income segment should improve more within the credit cost. Could you please comment on how you see these subsegments and whether a ROE above 20% is sustainable? We've discussed a great deal about it in this period. How much it's structural or not, how much this process is cyclical. On the overdraft caps and the whole payroll issue, how do you see the sustainability of these ROEs above 20% for the segment?

[Milton Maluhy]

Awesome! Thank you, Guilherme. There's nothing like time. It was indeed a question of yours. We weren't satisfied and knew that we need act on hardly to recover profitability. There are specific issues, market issues, and structural changes, a little bit of everything. We must be able to understand what's going on and the major variables. You've talked a while ago about overdraft. Overdraft took off about e four to five points off profitability in retail, the cap alone. After structural changes, there were the issues of credit cards, 30 days of revolving credit cards that you had to migrate, and so on. A change occurred in the dynamics of fees in the segment, as you have players and we start to have a premium offer with no annual fee, there's a lot of pressure on the fee business. This also removes some competition from the margin. Credit experienced a huge expansion in the period. In other words, the credit or service ratio changed and these businesses started to become more dependent on credit. On the positive side, however, we've been growing a great deal in insurance, which has started to play a major role in the operation as a whole.

I'm going to make a 10-second ad here: in a three-year window, the profit of our insurance operation increased by 93% in a three-year period, I mean, this year we'll double the insurance result of the last four years. Insurance is a cross-sell, a fee business that naturally contributes to profitability. I was asked a few quarters ago when we reached the floor, whether that was it where we would have a moment of inflection. What generates this inflection? There are several components, there's a major topline generation play, so we've managed to work with the right mix and the right client, in a significant way and with quality. You're absolutely right, there's a play of the cost of credit, and all the derisking of portfolio and the credit crisis observed, with the highest concentration in some portfolios where we have more than the twice than the second place player. An example is credit card portfolios with huge importance. We believe it's more significant in the market. It brings a cost of credit higher in harsher cycles. We were able to really turn around this portfolio, despite its size, to absorb losses in the bank's balance sheet and today we're able to produce vintages with extreme positive quality. It's a mix of margin with cost of credit. Net financial margin has played a massive role to reach such profitability. All our monoliners are above the "waterline". We have no such thing as losses, all our operations are profitable. The challenge has always been the cost of capital alone for some specific businesses where we've been working to improve significantly. We believe this profitability level is sustainable and that it may continue to expand over the year. A slight expansion in retail profitability is expected, much in line with what we've committed to do to with the turnaround in the operation. The entire review of the business model and structure, as the new business model is the new operational model set up at the bank, has undoubtedly had a great impact. Our entire super app journey, introduced this year, will also greatly assist us to provide a full banking offer to several other clients who currently don't have it at the bank, and boost profitability. Our companies portfolio, retail, has grown with much quality and expanding its profitability, driven by good management or Basel credit weights, adjustments made with recent changes, but basically with a very well-fitted value proposition and very consistent value creation. All businesses performed well in 2023 and for 2024 and we hope to continue this evolution to a greater or lesser extent. We're very optimistic to have the most balanced portfolio from a profitability viewpoint. Concerning the wholesale business, our vision is that we'll be able to deliver a high profitability level in 2024, a ROE of about 28% or 27% in the last quarter. Anyway with this margin of error of one percentage point upward or downward, we believe we can deliver a result "ceteris paribus", in other words, very strong in the wholesale business as well. There's now a natural component of rebalancing profitability, which is super healthy for the portfolio as a whole. We're very positive with this current expansion.

[Renato Lulia]

Perfect! Thanks, Milton. Next question comes from Rosman from BTG. As he's not been able to join us today, his question comes via WhatsApp. I'll do it for you, Rosman, you are represented here.

He's also sent his congrats via WhatsApp, yesterday in fact.

Rosman asks: the credit spread ended up at the higher end than average, the working capital is running at 9.5%, and the bank has always advised that it should converge to the SELIC rate, given the pre-tax vertex we use. Amid this context, can we say the guidance is conservative for the NII? Can the loan portfolio have more room to grow? These are his two questions about the guidance, one about the margin, NII, and the second one about the portfolio.

[Milton Maluhy]

Awesome, Rosman.

Thank you for the question. You'll certainly watch this recording later, but the main message is that concerning the portfolio, it's about the growth mix . We must look at the average growth balance, as this ends up having an impact on our NII. We believe NII will remain stable, the corporate portfolio as a whole will try to pull the NII to a lower level. On the other hand, our working capital and liabilities are undoubtedly well hedged. Overall, we imagine a very stable NII, with a small expansion of the NII adjusted to the cost of credit. The portfolio is at the midpoint growing 8%. As I've already said, if opportunities arise and considering risks, we'll grow the portfolio, as it makes sense in a long-term cycle. We won't miss the opportunities that arise. We undoubtedly have the appetite, capital, funding, and human capital to continue being very close to our clients and growing in those segments we're increasingly focusing, and where we intend to grow above double digits. Naturally, by improving your portfolio profile, you go into a mix with a bit less risk, bringing a bit less NII, but the risk-adjusted NII is better, from what we've seen in the market. Anyway, this is our dynamic.

We'll work hard to expand the NII due to a portfolio growing a bit more, but as long as opportunities are clear, a clear vision for portfolio management, target clients and a longer term vision.

[Renato Lulia]

Thanks, Milton. Next question coming from Daniel Vaz from Safra. Hello there Daniel! Good morning.

[Daniel Vaz]

Good morning! Thank you Renato, thank you all. Congrats on the results in a really challenging 2023. I'd like to go back to cards. The release showed a significant reduction of 3 million cards accounts to 38 of credit. The preference for the exposure of the most engaged clients, especially the Personnalité and Uniclass segments, is clear. I'd like to further explore the 2024 strategy in the mass-market channel in retail co-branded partnerships. The bank understands that this client's credit limit is under stress, that the risk has just been transferred to other players? Or credit to this same client has been reduced in the system, and you think there's room to increase the exposure to this client and perhaps increase consumption a bit today in the system. Thank you.

[Milton Maluhy]

Thank you, Daniel. So good to see you again, thanks for the question. Firstly, we expect the cards portfolio to grow over the year, so this is inevitable. It has its own TPV, with revenue growing, market growing, and a change in mix always happening. Looking at the figures released by ABECS, the Brazilian Association of Credit Card and Services Companies, we continue to see the business growing. As far as possible we try to break down our business in three large groups. There's an account holder group with us having a really strong share in all segments, especially middle- and high income, with growth above double digits, There's always opportunities here. Not only for existing clients, with a large share of this product, but for winning over new clients. A large part of our business is performed by acquiring new clients and increasing engagement and principality. This is the first point. The second one is that with the super app we'll be able to have a much easier, integrated, and simpler offer for our clients who currently don't have a full bank offer. We'll thus have access to a massive client base, who can be monoliners and have certain products, but not a card, and here we can have the opportunity to offer a unique experience, with the right limit from the beginning because they are clients we already know, with a credit record and a good modeling to make an offer. We've always called it open sea and reduced it significantly. Household income is highly compromised by this product, as over recent years there's been an oversupply of cards for clients. Figures in Brazil have more than doubled in a relatively short-time time period. A card is a product that has no cost for the client's wallet or app, and they end up having access to several products in a digital experience where one can quickly be onboard, with no annual fees. Clients go from having 1.2, 1.3 cards to 3, 4 cards on average. We've been careful because there's no point in granting conscious credit if this client has little or no financial education and ends up receiving many offers and getting in trouble. Our role is to help our client base to go through this undoubtedly more challenging cycle. We have greatly reduced, more than 90% in fact, the supply of offers to a target group with no track record or knowledge.

Our level of appetite for partnerships continues to be adequate, as we always look at the partner's value proposition, as if it's not good in terms of the offer as a whole, the trend is for client to look for products only because of the limit rather than for the value proposition. We work to deliver a good value proposition to all our partners to improve the quality of the offer, improve engagement and principality. Our super app will also help us with this integration. These are the main components of our card offering. As you've mentioned co-branding, I would say that in recent months we carried out a thorough review of our portfolio and terminated, in common agreement, a series of partnerships that no longer had a reasonable value proposition for our clients, but only generated management costs, such as a small portfolio with a reward program that no longer made sense. A massive restructuring took place, in which we focused on what was relevant, so priority is the name of the game. We've prioritized worthy portfolios. We had high-level conversations with our co-branding partners and understood that the product had lost its value proposition and didn't make sense for either us or the partner to keep on those co-brands. We kept and even renewed some significant co-brand partnerships with very strong and robust value proposition for clients, such as the partnership with company Azul, which is a product that functions very well in co-branding and we continue to be very excited and enthusiastic about its potential.

[Renato Lulia]

Perfect, Milton. Thank you.

Let's go back to English, as we have Jorge Kuri from Morgan Stanley for our next question. Hi, Jorge, thanks for joining.

[Jorge Kuri]

Thank you, congrats on your figures. I'd like to change topics, so can you please elaborate on the results in the guidance amid the credit card regulation scenario? As interest payments with a maximum limit of 100% started in January, I don't think the regulation of interest on cards will change values. What's your opinion about the impact on the business and the risk of the Government behind the project looking at the prices and thinking that nothing happened, the prices are not going to fall. What's the risk of this happening? Could more aggressive limits be implemented to effectively tackle this issue? What's the industry doing to prevent it? Thanks.

[Milton Maluhy]

Thanks, Jorge, nice to see you again, thanks for the compliments. First and foremost, let's update the changes in law we had at the end of last year. We've been debating at a high level for a long time now, somehow for roughly one year, representing the industry at meeting with all possible market stakeholders. Stakeholders comprise the Executive branch, the Central Bank, retailers, all associations. We've been at the Congress for talks with many Senate and Lower House representatives. After many debates, we've had a very clear and simple diagnosis on what we believe are the main drivers so many anomalies and asymmetries in the credit card market.

I've just mentioned in this conference call, it's reported that we have a credit card portfolio worth R$135 billion, of which R$115 billion do not earn interest. This just gives you an idea of how significant credit cards are in Brazil. Very significant. Many headlines have been published in the media stating that banks charge 450% per year in interest rates. I've always told the press and all stakeholders that this rate is virtual, this doesn't exist at the end of the day for two main reasons. The first reason is that no one can stay on the revolving credit for longer than 30 days. Secondly, you have a price amortization profile on your credit card that ultimately shows that no one should pay much more than 100% of the acquisition value on the credit card, in the principal or in capital.

Rates were said to be much lower than the ones being disclosed. The Central Bank monthly discloses an interest rate of 12, 13, and 14, whatever the rate is, based on compounds in 12 months and at the end they say it's 450% a year. That's not true. The rate is correct, maths-wise, no doubt about that, but this doesn't happen because no one can operate at that interest rate level over 12 months. Our view, and we've said it many times, is that the impact on the interest rate would be very marginal if this law were approved. Why is that? After all, no one was paying much more than 100%. It was 160, 120, and 170, depending on the portfolio.

It’s necessary to adjust periods and interest rates, but you’ll have a lower impact within that limitation. We’ll comply with the law, this is our obligation after all, to follow what is approved and this is how we’ll work in 2024. But this is an open discussion, as people have to try to understand the real impacts on credit card rates and create a long-term rather than a short-term agenda. We believe that the Executive, the Central Bank and all stakeholders will listen to everyone else in the sector, as they should, and will carry out another analysis to understand both causes and effects. We’ll try to create new discussions on this matter.

We’re always open to listen to everyone’s propositions. It's part of the business in a democracy and that's what we've been doing so far. We don’t expect a new cap, as we believe it’s not required in this context. But we think that, in the long term, we’ll have to do things differently to settle this issue on a structural base. Decisions so far have not been made this way, but this doesn’t mean we aren’t open and willing to have discussions in the medium and long terms.

We’re open to do so alongside the leaders of this market. What’s happening now is exactly what we’ve been telling the market. The silver lining is that we were able to somehow prove that this was going to happen. Beforehand, all we had were just analyses. Real life will show and confirm our insights to help reopen this discussion. We’re sure that this can happen and are open to it.

[Renato Lulia]

Crystal clear, Milton. Thank you.

Back to Portuguese, next question comes from Arnon Shirazi from Santander. Welcome to the call.

[Arnon Shirazi]

Hi, good morning, Milton, Broedel, Renato. Thank you for this opportunity. My question concerns the vehicle financing portfolio. The portfolio grew in the quarter and year-to-year. Talking to investors and clients, we can see that the general market is a bit more excited about this line of credit. What are your insights on quality, growth, and the type of market you are operating? Thank you and congrats on your earnings.

[Milton Maluhy]

Thank you, Arnon, for both your presence and kind words. We’ve always have a quite significant share in the vehicle market for many years, and we’ve also learned a lot with all these moves in the market over the years. We make new mistakes and learn with the errors of the past. It's surely an ongoing process. As our portfolio has a proper size, we've been increasingly working, always focused on serving our customers well, regardless of the channel through which they purchase and take out vehicle financing. We expect it to grow in 2024, even though not robustly but rather a fair growth. It has reduced its NPL 90 for the fourth consecutive quarter, it had increased but then we were able to reframe it in relation to what we observed in the market. We've been able to significantly reduce this portfolio's NPL. It's a naturally scaled business, as scale is essential to dilute costs for this activity. We've been working very hard to digitize the journey to have, regardless of scale, an increasingly competitive cost of operations. This way we can accept, within that defined appetite, larger volumes depending on the cost of service we've been working on. I don't think this portfolio will have a big impact from the bank's point of view this year, we continue to pore over portfolios that make sense and be present in the market. It's a segment that always raises concerns, since it boosts on people's euphoria, bringing both big gains and big losses. This is a very volatile and little resilient portfolio. There's a positive aspect, and I want to recognize the milestone of guarantees that is the change to make it possible to retake a vehicle through Detrans, or State Traffic Departments, or extrajudicially. This is very important as a victory for everyone and the situation will improve naturally. We always say that a vehicle is a guarantee on wheels, although it's always harder to retake this asset. Recovering collateral has always been and will continue to be a great challenge. The collateral framework has been evolving, which can help us have good recovery, a reduced loss given default (LGD) in this portfolio, and expand on some risk profiles. I don't think it explains our growth, but rather that our growth will be small. I don't think a portfolio worth R$33 billion will be significant in the whole, but it will rather remain with the same size or a bit larger.

[Renato Lulia]

Thanks, Milton.

Now back to English, so you can remain attentive and working hard. Our next question comes from Nicolas Riva from Bank of America. Hi, Nicolas, thanks for joining us today.

[Nicolas Riva]

Hi Renato, thank you all, and Milton and Alexsandro for taking all these questions. I have two questions, the first about dividends. Just to confirm that I'm right: this increase of R$11 billion you've announced as extraordinary dividend payments came from equity in the first quarter, so at the end of March we should remove about 90 basis points of capital from your ratios, right? In general, you used to target a common Equity Tier 1 of approximately 12% and an AT1 of 1.5% and pay out dividends in the case of capital surplus exceeding 12% CET I. Is this how you plan your dividend policy and target for your capital structure?

The second questions concerns perpetual debt bonds. So far you haven't made the call the perpetual bonds, the old 6 1/8 and the 6 1/2, which we define as higher coupons, but looking at the market prices, they are basically trading at the call price and you can make the call every six months. It seems like the market is assuming you'll make a call in the short term. Now your coupon payment is below 8% and last week we saw a Chilean, BCI, better rated than you because of the country risk of Chile, issue an AT1 at 8 3/4, well above the below- 8% coupon you are paying on your perpetual debt bonds. Is it realistic to assume that you'll call the perpetual debt bonds on the next call date? At least could you elaborate a bit on the call options of these perpetual debt bonds? Thank you.

[Milton Maluhy]

Thanks for joining, Nicolas. It's a pleasure to see you again. Let's kick off with the dividend policy. Overall you're in the right direction, your calculation is accurate, so when you include R$11 billion, the impact we'll have on this CET I is about 100 basis points. There's some volatility in the available-for-sale securities in the balance sheet, so the way we measure and form our positions we may see some consumption early in the year; looking at a quarter, we'll have the profit we made in the last quarter, we'll see the impact of this dividend and some volatility from those available-for-sale securities that could consume somehow perhaps 20 basis points of our capital ratio.

That's what you should see and, looking at the long term, 12 is a good level, 1 1/2 AT1 is where we are. We have well-established policies at the bank, and looking at 12 or 18 months, depending on the level of information or uncertainty we have, we calibrate it to define the best distribution level we should make. This is about 12%; you have to keep an eye on the uses and sources, especially when there's a tax reform coming on capital, with discussions on regulations on operations and credit in Brazil. We record capital buffers for any uncertainties and potential unexpected events.

That's why we have some hedging, and your analysis is right. We aren't willing to retain capital surplus; if opportunity arises, next year we'll deliver more extraordinary dividends. That's how we'll achieve results. Although forecasting payments is hard, the idea behind it is crystal clear. That's how we'll carry on. This is our first topic.

You're right in relation to the perpetual debt bonds. I saw the BCI AT1 coming to the market and the price level, and when you go for a new issuance we must consider the new issuance premium for the perpetual debt bonds. We believe that the price level will be much higher than the one embedded in the coupon we have today. That's why we don't exercise the call option.

We had notified the market in advance we wouldn't exercise the call option, we'd like to have a very economic vision and approach. We must consider all alternatives to access the market, either foreign or local, how to keep the curve in the foreign market, and how a new coupon and new yield would look like in the case of a new issuance. It would be much higher and that's why we don't intend to do it. In the case of any change of direction we'll be ready to provide the market with clear information. From what we can see and the information available today, we don't expect to exercise this call. This is something we'll continue to talk with the market and all close investors.

[Renato Lulia]

Thank you, Milton. As we're getting to the end of our call, we have one last question on our list, again in English, coming from Carlos Gomez from HSBC. Carlos, thanks for joining.

[Carlos Gomez]

Thank you. Congrats on the dividends. And thank you for also having this long call and provide us analysts with the time for this Q&A session. I've got two simple questions. You've given us your estimate on Basel III impact, of 42 basis points, as calculated today. Would you please also elaborate on the impact of the tax reform? Based on today's figures, what would be the losses DTAs have on your capital? Secondly, in the past you've told us your estimate for cost of capital was 15%. Correct me if I'm wrong, what's this cost today? Thank you.

[Milton Maluhy]

Great, Carlos, thank you for your kind words and for joining us. It's a pleasure to see you here and we'll always have time to talk to key investors and to you as well. Let me first comment on the DTA, which is something key. It's worth mentioning that 42 basis points have two elements, the first one being the operational risk. Although the expected operational risk for us is 100 basis points, we have a phase-in in four years. Thus, what we really expect is 25 basis points per year for the coming years.

When we add it alongside credit, there are some changes in weighted assets. This may impact the 42 basis points. I emphasize that's 100 basis points for the operational risk, and what we're expecting is 25 basis points per year for the coming years. The second key element concerns the tax reform: if it were approved precisely as it's designed today, 7 + 1, the tax rate on corporate tax and social contribution, we'd see something at 60 basis points in capital if we had to record some impairment. These would be the figures if the tax reform were approved exactly as it's being discussed today in the

Congress. A large reduction in corporate tax and social contribution could impact the impairment of the DTA at about 60 basis points.

[Milton Maluhy]

Sorry, Renato, just to follow on the second question. I'm going to give you the figure for cost of capital, as we are managing the bank in the last quarter: last month we imagined something at about 14%, but now after being approved by the Board, we are managing the bank with a cost of capital of 13.75%. This is the cost of capital mainly as from February. In this quarter cost of capital will be 14% in one month and 13.75% in two months, thus on average cost of capital would be about 13.80-85% in the first quarter. This is the cost of capital we are recording. Of course we look at our model, the sell side, talk to the buy side, and have our discussion with the committees to reach this level, Carlos.

[Renato Lulia]

Now it's ok. Thank you, Alexsandro and Milton. We're effectively wrapping up this Q&A session. Just remember that we've received more questions via WhatsApp and, as usual, we'll be answering them all directly through our IR team. I'd like to come here to leave one last message for our investors and analysts. Thank you both, Milton and Alexandre.

[Milton Maluhy]

Thank you, Renato and Alexandro for being here engaging in all these discussions. I believe we closed a year marked by some challenging events, such as the ones that occurred on January 8 and January 11. Then there was another major event occurring with a large company. With all the changes across the country early in the year, it was hard to imagine how 2023 would unfold. Now I'm delighted to disclose our figures and talk to you today, unveiling such solid, recurring, and consistent results. Most importantly are the figures that support our results. Our results reflect everything we do at the bank. The whole digital and cultural transformations, the proximity and engagement and client centricity mean we're delivering consistent results over long periods. I believe that we continue to be truly committed to this agenda. The digital and cultural transformations and client centricity have to take place all the time, on a day-to-day basis. This is a topic we talk about and discuss all the time. We expect to deliver a very solid 2024, with engagement indicators focusing on principality and robust relationships. Our success also relies on the extremely high level of our employee engagement, maximum level of energy, our client satisfaction surveys at the best levels in history, demonstrating that having an engaged team, a great human capital focused on delivering the best bank to our clients every day, indeed bring in the greatest results. A second aspect worth mentioning is that we keep our feet on the ground, we are humble because we know that past performance is no guarantee of future performance. Everyone at the bank is fully focused and disciplined to continue to deliver high quality in a market that's undergoing deep changes. We know that doing more of the same won't take us where we want to be. What we need to have is this ability to reinvent ourselves all the time. This is our 100-Hundred Celebration Year, we'll 100 on September 27, 2024. A major symbolic year for us, when we hope to deliver strong results and become ready for what is to come in the next 100 years. This will be our journey. We wish to keep moving with, at all times, a long-term vision, well-established governance, among the board, management and all committees. This level of alignment has been effectively delivering amazing effects and results. I'd like to thank you all for your time and presence. And, above all, for your trust. Trust as clients and investors. We'll keep on working hard every day to surprise you and continue to deliver the best bank possible for all our stakeholders. Thank you so much. We'll see you soon, we'll be talking at our meetings or until the next earnings review call. We'll see you soon. Thank you everyone. Let's keep moving.