Transcription – 2Q24 Results

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

Hello! Good morning, everyone, and thank you for joining this videoconference to talk about our earnings for the second quarter of 2024. As usual, we are broadcasting directly from our office in Avenida Faria Lima, in São Paulo. Today's event will be divided into two parts. First, Milton will take you through our performance and earnings for the second quarter of 2024 and then we will have a Q&A session, during which investors and analysts can ask us questions and get into the details with us.

Before we get started, I'd like to give you a few pointers to help you make the most of today's meeting. For those of you who access this via our website, there are three audio options on screen: the entire content in Portuguese, the entire content in English, or just the original audio. For the first two options, we will have simultaneous translation. To choose your preferred option, just click on the flag on the top of your screen.

Questions can be submitted via WhatsApp. Just click on the button on the screen on the website or simply send a message to +55 (11) 93959-1877. The presentation we will be making today is available for download on the website screen and, as usual, on our Investor Relations website.

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

Milton Maluhy (CEO)

Good morning, everyone. Welcome to our meeting to talk about the 2024 second quarter earnings. In this presentation, we have primarily tried to provide executive information, in order to make more time for a conversation during the Q&A session. Let me go straight into the figures to share our results.

We reached the double-digit mark in quarterly managerial recurring results of 10.1 billion reais in the second quarter and posted growth of 3.1% over the first quarter of 2024. Now, moving on to the bank's profitability, our consolidated return on equity was 22.4%, a quarter-on-quarter growth of 50 basis points and, in Brazil, our ROE was 23.6%, a quarter-on-quarter growth of 100 basis points. I'd like to draw your attention to the fact that we are running with the Common Equity Tier I ratio of 13.1%. If we were to adjust the bank's profitability by the risk appetite level set by our board, which today is not permitted to operate with capital below 11.5%, we would have posted a consolidated ROE of 24%, taking into account all adjustments, and ROE of 25.7% in the operation in Brazil. So, the profitability adjusted by Common Equity Tier I of 11.5% is 25.7% in Brazil, which is the profitability for the quarter.

We have good news regarding the loan portfolio, with sound growth that I will comment on later. We've been finding opportunities to grow with quality and a long-term vision by looking at longer-term cycles. We reached the 1.254 trillion reais mark during this quarter. Delinquency ratios are within acceptable thresholds, and I think that the delinquency indicators level that we've been working on is just as important as the steed fall that we're posting. Delinquency indicators are lower than pre-pandemic levels and I'll talk about that later.

Commission, fees and insurance recorded a good quarter and posted high-quality growth of 5%. We continued to organically grow our capital base and ended the quarter at Common Equity Tier I of 13.1%, a growth of 10 basis points in the quarter. I'll give you more details on capital in a little while.

Going into a little more depth, let's talk about the loan portfolio. I'll focus on some key messages. The Individual loans segment grew 1.2% in the quarter and last quarter I'd commented to you that there would still be a de-risking effect going on in the portfolio in the coming quarters. The credit card portfolio was one of the portfolios in which we had to make the biggest credit adjustment. This portfolio remained stable, which is good news, because it needs to stop dropping so it can start growing again, and we're already seeing an inflection point for this portfolio this quarter.

The personal loans portfolio grew 2.3% in the quarter. We also grew 0.8% in Payroll Loans, in vehicle loans, growth was 3.1%, and the growth in the mortgage portfolio was 1.6%.

The portfolio of individuals grew 3.2% in the year, with some more detracting effects, such as the card portfolio and the payroll loan portfolio holding back this growth. But, as I said last quarter, we are at the end of the de-risking process. So, all the origination effects are already starting to be positive for the portfolio. We'll be able to notice that in the coming quarters.

The SME portfolio also posted healthy growth in the quarter, of 2.7%, and has been growing above double digits year over year, posting growth of 12.5%.

The large corporates portfolio posted very strong growth of 8.6% in the quarter and 16.3% year over year. I remind you that this includes a FX impact. I'd say that a third of this growth was due to exchange rate volatility, but two-thirds of the growth happened organically, which shows this portfolio's great momentum.

And the results for Latin America, which posted growth of 13.3%, are basically explained by the FX effect. Thus, this does not necessarily represent a portfolio growth but rather reflects FX fluctuations. As a result, we can see the loan portfolio growth of 8.9%year over year and excluding FX, growth was 7.1% for the period.

I had told you last quarter that we'd reaffirm the growth set in 2024 guidance and that we'd be able to post high-quality growth in the quarters ahead. The market doubted it, but I believe that 2Q24 figures prove this dynamic.

By looking at the credit card portfolio, for example, we note that it was flat in the quarter but grew 2% year over year. In this context, I'd like to highlight two segments that are key for the bank in terms of both the quality and the number of customers, which are Personnalité and Uniclass segments. The credit card portfolio in both these two segments grew 3.5% quarter over quarter and 17.3% year over year. These are middle- and high-income segments where we've been focusing a good portion of our growth.

We have good news regarding credit origination in all products. We posted quarter-on-quarter growth of 6% in the individuals segment, 7% in SMEs and 23% in large corporate segment. Year-on-year growth was of 19%, 11%, 21%, and 17%, respectively. This shows our ability to grow and originate credit very strongly, with high quality and a long-term vision. This is what we're managing to do. And deep-diving at the personal loans portfolio, which includes products such as installment loans and overdrafts, 71% of the growth in 2Q24 came from the middle- and high-income segments named Uniclass and Personnalité segments. Again, this shows the strength of Itaú Unibanco's middle- and high-income segment. It's very important to show our ability to grow in segments that still have a lot of room to continue growing, despite our very strong leadership position.

With respect to the clients' NII, I'd like to make an observation regarding the adjustment in Argentina, which I'll continue to make during the next two quarters. Our last year's earnings included seven months of Argentina's results. So, we're trying to normalize this effect by excluding Argentina from the analysis. Taking this and the working capital effect into account, we posted a 7.4% growth in our clients' NII year over year.

As you can see, if we considered the core clients' NII in the second quarter of 2024 over the first quarter of 2024 by firstly disregarding the working capital effect, this NII growth would have been even greater since we would also have a drop in working capital in these deltas. The core clients' NII grew 2.7% in the quarter, or 600 million reais. The product mix was slightly negative for the NII because, as I showed you in the loans portfolio slide, we grew more in the corporates segment than in the individuals segment, and within the corporates segment, we grew more in the large corporates segment than in SMEs. This is the slightly negative mix impact on the NII.

On the other hand, volumes more than offset this effect, with a contribution of 400 million reais in the period. We also have the positive effect of spreads and liabilities margins, in which liabilities margins is the more representative of the two, as it continues to expand as a result of a very strong growth of the bank's liabilities. Finally, the structured wholesale operations are also having a positive contribution in the "Other and Latin America" line.

Even though we see a slight decrease in the consolidated annualized NIM for the quarter, it is practically sidelined when adjusting for risk. The consolidated risk-adjusted annualized NIM was 5.8% for the fourth quarter of 2023 and the first quarter of 2024, and 5.7% for 2Q24. The provision recognized in Latin America generated this 10 basis points impact on the consolidated NIM. The annualized NIM in Brazil dropped slightly but, as I always say, the most important indicator is the risk-adjusted NIM. Therefore, increasing our NIM and expanding our topline and our portfolio must be done with high quality, otherwise there will be a negative impact on risk-adjusted NIM.

We continued to consistently improve the risk-adjusted NIM. Thus, I would say that this is yet another quarter of good news in terms of our NIM.

I'd like to pause for a moment to bring back this chart and tell you the reason why I'm bringing it up again.

In the second quarter of last year, we showed this data because some analysts asked us how sensitive our NIM was to interest rates. We've always said that we were less sensitive than some analysts were saying. But since this issue keeps coming back, we thought it'd be important to show this data again.

In this graph, we add the clients' NII and the market NII, which is how we manage everything sensitive to interest rates on the balance sheet, whether it is the loan portfolio or market positions. So, the first piece of information is that we set the 100 baseline in the fourth quarter of 2019, which was the last quarter before the COVID pandemic.

The second piece of information is the interest rate, which is this black line. It shows how the interest rate has behaved over time. By doing this analysis, we note that the NIM is highly stable, while interest rate behavior is very volatile.

We note the interest rate rose from its lowest levels in history to the levels we have experienced recently, while both our gross margin and risk-adjusted NIM have been expanding and proving to be much less sensitive to interest rate fluctuation.

I think this graph is very intuitive and it shows our ability to manage all the risk factors of the conglomerate and be able to navigate through greater interest rate volatility cycles with a much lower impact of CDI fluctuation than many imagine. This is why we think it's important to show you this information one more time.

And what would this drop be? These are the first quarters of the pandemic, during which we recognized very high provisions in the balance sheet and that's why, in fact, we had a drop in NIM. But then we posted a very strong recovery over time. This is the message I'd like to share with you.

The market NII had a very positive quarter, posting the best quarter in this historic series, both on a consolidated basis and in Brazil. In Latin America, we had a slightly weaker quarter, as you can see, and the capital hedging cost was flat compared with the previous quarters. This quarter's earnings, therefore, stand out because they were strong as a result of the operation and better risk management, seizing some market opportunities that we found, allowing us to post quality results.

Moving on to commission, fees and insurance revenue, I'll start with credit and debit cards, which grew 0.8% in the quarter.

In current accounts, some might ask why there's a drop and what's happening. And I'd like to highlight that we disclosed to the market the support for Rio Grande do Sul and our clients impacted by the floods in the region, and now we can see how it affected some balance sheet lines. We exempted those clients from individual and business current account fees, which explains about two-thirds of this drop in the current account fees.

We had a very good quarter in the Asset Management business. It is important to mention that both the second and fourth quarters usually include a performance fee, which generates some volatility, but we've been able to deliver performance fees both quarter over quarter and year over year. We remind you that last year was a very difficult year for performance fees, and although this year has not been easy, we have been able to deliver better results for some products. We posted major growth for advisory services and brokerage in the quarter, especially in DCM, which posted very strong results, in addition to continuing to expand our individuals' brokerage business. Therefore, this business also helps to explain part of this growth in earnings. Year over year, we grew 83.5% and I remind you that in the second quarter of last year we were facing a very difficult time with no capital market activities, which means that this is not the best comparison.

In terms of results from insurance operations, we continued to expand the topline. We also had the effects of the floods in Rio Grande do Sul in the quarter for the insurance business since it affects the retained claims, but the quality of the operation and the insurance penetration continues to grow organically, at the same pace that we had been growing over the past years. This gives us a very sound picture of commissions and fees and results from insurance operations.

Funding through the asset management business was strong and posted an increase of 22% year over year and of 34% comparing the first half of 2024 against the first half of 2023.

This is the advantage of having a portfolio with very diverse products and being able to understand what our clients' needs are. Client centricity, which has enabled our funding volumes to grow and net new money, has been higher and higher quarter after quarter. The pension funds operation reflects the same levers, with revenue growth of 22.8% in the quarter and net inflows growing 61%. So, we have more volume, good advisory service for our clients, and higher profitability as we can also deliver performance fees in pension products. And in investment banking, I already mentioned the strong DCM results: we indeed had a very sound quarter with 27% market share, and once again delivering consistent results.

I'll now present the credit quality indicators, starting with short-term delinquency indicator, the NPL 15-90. In Latin America, we had a slight increase in the short-term delinquency indicator explained by one or two corporate groups in the region, which is not worrying us. When we analyze the total delinquency ratio and the delinquency ratio in Brazil, we see a slight drop in the quarter. 90 days NPL is running at 3% in Brazil, a slight drop compared to the last quarter and at 2.7% in total. Further down, we have the Latin America indicator, at 1.4%.

As important as it is to analyze the trend, we must also analyze these indicator levels. When comparing the current level with the pre-pandemic one, we can see that we now operate at lower levels, so I believe that this is the most important message to convey: we have been running for some time at levels lower than pre-pandemic. We can see this dynamic in the NPL 15-90 for Brazil, which fell 10 basis points quarter over quarter, while the NPL 15-90 for SMEs also fell 20 basis points in the period, which projects a very positive trend. For large corporates, the indicator is at historic lows.

90 days NPL in Brazil remains stable, despite the typical rollover of short-term delinquency that happens in the first quarter.

90 days NPL for individuals was 4.2% in the quarter, remaining flat compared to 1Q24, and is lower than the pre-pandemic level, which was at 4.8% in 4Q19. As I've said earlier, these indicator levels are as important as their trend. We've shown that, quarter after quarter, we are operating with high-quality credit indicators. And obviously, this is where we always have to be careful with the type 1 and type 2 mistakes: the type 1 mistake is a credit mistake, which is the kind we don't want to make, and the type 2 mistake is a risk appetite mistake, which is the kind that we have been careful not to make so that we can grow with quality.

In terms of credit quality, the cost of credit was flat with a growing loan portfolio in the period, as I showed earlier. This leads to another decrease in the cost of credit ratio over the loan portfolio, once again reinforcing the high quality of our portfolio. The renegotiated portfolio also fell, nominally and percentage-wise, with the loan portfolio growing. Its ratio to total credit portfolio is at 3%, which is good news. The coverage indexes are all very stable, with very little volatility within a very acceptable margin, when compared to the time series. There are no points for our attention in these credit indicators.

Non-interest expenses grew 4.7% quarter over quarter in Brazil, noting that the second quarter is typically stronger than the first quarter because of the accounting effect of vacations in the first quarter and some higher investments made in the second quarter. Excluding Argentina, growth was 7.1% year to date over year, and consolidated Opex grew 5.0% in the same period.

The most important thing is that the efficiency ratio continues to fall consistently, because managing the topline is as important as managing the cost, and it is this dynamic that has been translated into efficiency rates. This efficiency ratio that we are now disclosing is for the six-month period, but it is important to highlight that the efficiency ratio for the second quarter is the best efficiency ratio of a second quarter in the historic time series.

So, this was another quarter in which we achieved the best efficiency ratio comparable to the second quarter.

At the beginning of the year, when we presented the 2024 Guidance, I pointed out that core costs would grow below inflation. In effect, inflation for the last 12 months, measured by the IPCA, is at 4.2%, and core costs grew 3.8%. This shows that we have been able to keep core costs growth below inflation but without ever leaving aside investments in our organization: in business expansion, in technology, in our digital channels, and in a better experience for our clients. This is what we've been trying to do, quarter after quarter. So, the main reasons for the increase in the expenses line are the investments we make.

All this investment generates results and benefits over time, which is why it is important to analyze the efficiency ratio.

The last slide of the presentation covers Capital. Here, the most important thing to show is that we continue to grow organically and we expanded our capital base by 0.5%, already adjusted for the dividends. Prudential adjustments, which consider effects of the mark-to-market of securities booked in the shareholders' equity, have consumed 0.2% of capital with all the interest rate volatility in recent months. And the loan portfolio expansion that I was talking about just now consumes 0.2% as well. It's important to remember that the capital appetite of the Board of Directors for the business is 11.5%, and the capital appetite for dividends is 12%.

I'm sure that we'll cover this topic during the Q&A session. The most important message is that we are working with a very strong capital base, which allows the bank to continue pursuing growth opportunities, as long as capital is not a constraint.

We manage capital allocation focusing on high quality and profitability to ensure value creation.

We have a very sound capital base, which has been expanding and financing the bank's growth. So, I understand that this is a very healthy dynamic for the balance sheet, which shows that we ended up with very robust CET1 and Tier 1 indicators.

This is the end of our 2Q24 results presentation. I'd like to thank you all once again for participating in another earnings presentation. In this presentation we did not bring up the Guidance, which is naturally reaffirmed. The Guidance is not quarterly, it is annual, and we want to be able to share any developments with you. And we are absolutely in line with everything we have committed to since the beginning of the year.

You will certainly be the first to know if there's any change of scenario or vision. Now, I'm going to join Renato for our Q&A, so we can discuss our results further. Thank you very much once again for your participation. Cheers.

Q&A

[Renato Lulia]

Milton, thanks for the presentation. As you have said, it was very executive-oriented, especially because we have held the Itaú Day not long ago, with three hours of content on initiatives and business. Thus, this call was focused mostly on results. Today we also have a long queue of questions, 13 in fact, awaiting for us, for you, here.

Well then, let us kick off the second part of our meeting today, which is the Q&A session. Let me remind you that this is a bilingual session, that is, Milton will answer the questions in the language they are asked, either Portuguese or English. For those who need some kind of support in translation, you can choose all content in either Portuguese or English. You can also send your questions via WhatsApp to (11) 93959-1877.

Let us get right away to the first question, Milton, please.

As I have mentioned, we have a long queue of analysts here. We have here on the screen Renato Meloni from Autonomous. Renato, good morning. Thank you for joining our call today.

[Renato Meloni]

Good morning, everyone, thank you for this session. I'd like to understand the outlook for evolution in the portfolio for individuals throughout the second half of the year. It would also be interesting if you could contextualize this issue amid the de-risking scenario you showed last quarter, and within the context of starting to re-accelerate originations in all income segments. Thank you.

[Milton Maluhy]

Thank you very much for your question.

Just a moment, I'll give you some of the context. Ok. Let us see it. The de-risking process is already at the end, as I mentioned last quarter. It justified the 0.35% reduction year-on-year, in this quarter, that is, the second quarter of the year.

I'd say we are very close to the end of the process. Therefore, our expectation was to have the full inflexion by the end of the third quarter. I repeat we are very close to this end.

Moreover, I genuinely think that we need to clarify something important. We haven't stopped growing. We've continued to grow the middle and high-income portfolios, for several consecutive quarters now.

It is just that, when you look at some portfolios, especially taken together, and the card portfolio is a good example, you have the inertia of portfolios that continue to fall nominally. Therefore, it is like a gravitational force pulling some portfolios down, although you record growth in origination and in the portfolios of other segments. Soon this negative effect will peter out and we'll start to see the positive effect.

We'll start to record increases in portfolios year-on-year, which will grow compared to this quarter. I understand this is the core message. We've seen opportunities for growth in different business, different products and different income segments. We've got to be careful to state these are in the middle, high or low income. We've really seen opportunities for growth in all segments if you have the right channel, the right product, and the right client.

We have less resilient clients in all segments, whether low, middle or high income. What is important is to interpret the data well, understand the modeling well, the depth of the relationship and evolve the level of engagement we have with these clients. So, looking ahead, we continue to see the capacity for growth in a positive light, especially after carrying out the de-risking process in portfolios.

However, we must always bear in mind that the population continues to spend a huge part of their income on servicing debts, and that the leverage level remains high, as well as the level of interest rates, which means that we have to grow with caution. To grow and evolve the portfolio, bring more margin and then return all of it to the ALL is not something we do. That's why we manage our net financial margin with much discipline. That's the margin of the products less cost of credit, the ALL. We've been able to record a very positive net financial margin and there is the potential to continue expanding our risk-adjusted line within this dynamic and discipline.

We see it in a positive way, and surely we continue to have the appetite to grow with quality, by looking ahead at longer cycles and removing volatility from the portfolio to be able to keep on delivering improved and consistent results. I believe this is the core message.

[Renato Lulia]

Thank you, Milton and Renato.

We are now moving on to English, as I know the next question comes from Tito Labarta from Goldman Sachs. Thank you for joining the call.

[Tito Labarta]

Thank you very much, Renato. That's my little bit of Portuguese. Thank you for taking my question. I want to stick to the issue of growth in loans, but now focusing on corporate loans. We've had a good performance in corporate loans, which is mainly due to the FX market.

However, even excluding FX, origination has had a massive growth. Loans for SME (small and middle-market businesses) have grown at a good pace.

Can you please tell me know how you see the health of companies and the economy in general? In terms of their capacity to continue to sustain the lending activity at such a pace. How can this spill over into the rest of the economy? There's plenty of fiscal concern about Brazil. However, if you have such strong growth in loans to companies, there seems to be a demand for this product. Please help us understand it amid the macroeconomic scenario in Brazil.

[Milton Maluhy]

Thank you for the question and for joining the call, Tito. The growth we've recorded in this portfolio, especially the corporate segment, has been very healthy. We've been able to find opportunities. Ours is a well-capitalized bank, providing us with opportunities to grow our portfolio when we identify the opportunity to do so. The DCM (debt capital) market) is very active. We have a strong growth in the AUM (under the curve) area, quarter over quarter. We also see opportunities to deliver more loans for our clients as we are leaders in the DVM market and able to sell in this portfolio as a whole.

That's a circular process, in which we grow the portfolio, sell to the market and, surely, open credit lines to clients with no access to the DCM market.
Overall, despite several discussions on macroeconomics, such as interest rates, inflation and the forex market, we've been working since 2015, 2016 and have massively changed the way we manage our portfolio. For this portfolio, we work with a focus on risk. For example, we have less than 3.5% of our capital allocated to the bank's top 10 clients credit-wise. Therefore, we have strongly reduced the concentration and allocation in these portfolios, with a very healthy balance when it comes to all segments we work with.

When analyzing our clients, we always hear about specific issues from one client or another, but we've had some good surprises. Thank God we've been lucky. We are doing very well in terms of credit origination, credit and risk management. We are in a very comfortable position. We believe that, although opportunities always arise, we won't keep the same pace of growth we had this quarter in the corporate segment. We believe the pace will decrease in the next quarters. But this decrease will be at a healthy pace, generating plenty of business for the bank, such as cross-selling, and a close relationship with our clients.

We also see opportunities for growth with quality for SMEs. The NPL rate in this portfolio was driven by our shortening terms, 20 basis points this quarter. The activity is very sustainable, with excellent quality and high profitability. That's key, as we will keep the focus on capital, capital generation and ultimately on capital allocation and risk management.

We do not, and will never do, artificial pricing, nor will we try to gain market share artificially. All the production and lending figures on our balance sheet represent good profitability and return on capital. Everything is in the context of our relationship and significant position with these clients, that is, with investment banking, ECM, M&A, DCM and all other products we can work on for them. That's why we are so at ease with the health of the portfolio. We are also cautious, as we always keeping an eye on the economy's forecast and outlook. If the need arises to adjust our appetite, we will do so. We are in a very comfortable position and have no reason to worry about the growth of our portfolio, which is of good quality and healthy.

[Renato Lulia]

Thank you, Tito. For next question, we move back to Portuguese. It comes from Rosman from BTG.
You're OK, Rosman? Thank you for joining the call. Good morning.

[Eduardo Rosman]

Good morning, Milton. Good morning, Renato. I wanted to get away from issues concerning the quarter and ask a question about One Itaú.

Could you please update me? Milton, I'd like to understand how important One Itaú really is for Itaú's medium-term strategy. Is this something you expect to really act on? Will you be disappointed if you don't succeed or should we see this platform as more of an alternative for such investments? Thank you.

[Milton Maluhy]

Awesome. Thank you, Rosman. Thank you for the question.

It's good to see you again. I'll start with the second question, as I'm sure that, besides you, the team is also watching our conversation here. We will be disappointed if we are unable to make significant progress in what we call One Itaú. We've started this process with a very strong take on infrastructure, platform, unification, management, looking at the client with a view in the completeness of the relationships and simultaneously one that is complex, and one that perhaps presents a great opportunity that is as significant as complex. Right from the beginning, we started with a very thorough pilot that we've been gradually improving. We already have a certain volume of clients today running within this pilot and all indicators are very healthy so far.

Just to give you an idea, 98% of the clients we have encouraged to migrate from the card app to the High App have done so. 98% is a number far above our expectations and any migration you might do, because we have in fact managed to do this very easily, with a seamless client experience, who understands that there is value being offered to them. We are so delighted with the progress that we are going to bring forward much of this migration.

Our expectation was to have up to 15 million clients. This is the first major move until the end of next year, that is, the migration to this new platform. We are moving at a very healthy pace.

We don't usually disclose many figures, but we imagined migrating about 2.2 and a half million clients this year. We could possibly reach twice this figure this year given the pace and quality of what has been done so far.

I must emphasize that this is not a commitment, but an expectation, an estimate, given the results we've been able to reach in a short period. It is a very long journey; there is still a lot of work to do. There are very significant developments in our own High App, looking at it.

We have benefited from it, as these Mono Apps had their specific qualities. The fact you are specialized in a journey means that you have more advanced features in that journey. We are thus able to have the best of both, that is, at the same time improve the High App with the best we had in the Mono Product journeys and provide "monoproducers" or cartoonists, for example, with a Full Banking experience with a much broader and complete delivery.

We are at a very fast pace, monitoring every day how our login to our apps has changed. We have been able to unify these products, moving from this focus on the branch, account, card number, to a view towards individuals registry, or CPF. Therefore, these are significant structural changes only possible thanks to the whole platform modernization carried out at the bank. We would not been able to do so otherwise. All the IT investment has brought this benefit to the bank's core platform, as several components are being reused in this journey.

We are very thrilled, as I think it can be transformational. Obviously, I am raising expectations here. Our expectations are high, but we are still at a very early stage.

There is no impact on the P&L. Our expectation, when it comes to migration and number of clients, is to impact a large volume and over the next few quarters we will start to measure it more effectively, bringing in more quality, more data, as has been happening with our cross-sell capacity. We ultimately expect to improve and upgrade the relationship with all these clients. Therefore, expectations are great, but we are still in the ramp-up phase.

[Renato Lulia]

Thank you. Thank you, Rosman. We have here Gustavo Schroder from BBI for the next question.

[Gustavo Schroden]

How are you doing, Gustavo? Good morning. Thank you. Good morning, Milton. Good morning, Renato.

Thank you for the opportunity. Congratulations on the record profit of R$10 billion for the quarter, it was awesome. I wanted to explore the results from your treasury.

It really draw attention. We understand that there is always some volatility involved. That's a difficult result, but it was at a rate of R$900 million, R$1 million ... I mean, R$1 billion, and R$1,400 billion. If you could share with us, Milton, the composition of this result. I'd like to understand if there is any gross-up of tax benefit from any line you have, or how much came from the trading business, specifically. Anyway, if the results will go back to those previous figures of R$900, R$1 billion in the next quarters. It should be done by factoring in all the information we have now, as this is a very volatile line.

[Milton Maluhy]

Thank you. Perfect! Thank you, Gustavo. Firstly, it is important to address this point, thank you for the question and for the congratulations!

Let me start with the more objective answer. There is absolutely no artificiality, that is, no gross-up, no realization of surplus value to try to take the result to the margin, nothing at all. In fact the result was driven by a really a stronger, but atypical, quarter. You are absolutely right, if we look at the historical series, we were running at about R$1 billion, earnings-wise, in Brazil, and this was a stronger quarter.

There are several risk factors involved, in my opinion. The biggest effect was in trading, more than in the banking activity. As the trading activity had a massive impact, the quarter was much stronger. There are two forecasts to make here.

The first one is that if we manage to deliver a quarter like this by looking forward, it would be a new outlier. It is not the expectation, although everyone is trying to find opportunities, after all. It is not exactly the expectation we have by looking at the quarters ahead. It is more reasonable to project our margin with the market going back to levels of R$1 billion, R$1,100 billion, and we should bear in mind that the cost of the ratio hedge has also fallen to relatively lower levels.

Although we disclose these figures with one decimal place, if you break it down you'll see that it has been falling. We have witnessed interest rate differential data. This has been positive for the hedge cost. The expectation is to return to normality, with all the difficulty of projecting the margin with the market, but I think this was a truly outlier quarter. Looking at our financial statements, you won't see any gross-up effects nor markup, nor capital gains not recurring in our balance sheet. Ultimately, it's more about actual risk management and opportunities arising in multiple risk factors across all desks. It was really an exceptional quarter, with no increase in the risk limit or appetite.

Figures are within the bank's limits and market risk framework, so there was no change in appetite in terms of the limits made available. Limits may have been more consumed, but all within a framework and a frame that is the same as in previous quarters, as they are comparable.

[Renato Lulia]

Crystal clear. Thank you, Gustavo. Next question is from Daniel Vaz from Safra, who is already here with us. Hi, Daniel.

[Daniel Vaz]

Good morning. Good morning, Renato. Good morning, Milton. Congratulations on the earnings.

I wanted to know more about your acquiring activity. You grew a little less than 10% year-over-year in the quarter, which seems to be more about keeping the market share when we think about the industry growth. The first question is whether and when you expect to resume growing above the industry, in line with the Itaú EMPs' strategy.

I'll ask the second question later not to get in the way of the first one.

[Milton Maluhy]

Well, thank you. This question of yours is excellent, as I can take advantage, clarify, and comment on a change we should be making when I look ahead.

The acquiring business is recorded in the line of commissions and fees and result from insurance operations. However, you can only see a part of the result of this acquiring business through this line. That's because another part of the result is in the financial margin with clients.

You should bear in mind that it comprises the revenue from rents, revenue from MDR, revenue from prepayments, the flex itself, the cost of funding of these prepayments. These lines are deployed separately. If you try to simplify things and reach our take rate by looking at this line separately, you won't reach the result from the acquiring business.

I must say I see no benefit in disclosing earnings in this way, since it constitutes just a partial piece of information and does not provide a vision and the completeness of the business. We are discussing internally how to review the way we disclose the acquiring business or whether we should group together the issuer and acquirer on one line to avoid any kind of inappropriate assumption or conclusion.

The second point is about the market share. Your question is very important because we have no goal or target for our market share. Market share is the result of our work, how we approach the client, it's the result of our value proposition, of the offering and the business we do with the client.

Although we are growing in line with the market and have a leading market share, we are not driven by it. That's not what drives or guides our decisions at the bank. We've been searching this integration, which was complete and well carried out, as I've followed it up closely. It had excellent quality and today we have a bigger market share and closeness with the client with a fully different acquiring business. The advantage of this product being 100% owned by the bank and having an integrated operation is that you start talking about the acquirer as just another business product.

We need to stop looking at the acquiring business the way we used to do in the past, almost as a separate world. There were several listed companies, all competing for a business, and we ended up looking at it as a "monoliner". We no longer have this view, as ours is the client view, the corporate client, with a value proposition and offering. Even looking at the parent company's balance sheet and try to make an assumption of results, you won't succeed because a good part of the result comes from the companies business, which is accounted for in the bank's balance sheet.

Therefore, from now on, or indeed for some months, we have been working with the client view. Your view will be flawed if you try to look at our business separately or as a "monoliner". We truly believe that this integration is going very well.

Ultimately, it is the business connection with the teams and the value proposition to the client. Client view, rather than the product view, is what matters. Our migration from the product view was made a long time ago.

We believe the product view is old and we really need to look at the client and their needs. That's where the acquiring business comes in. There are clients who want to start a relationship through the acquiring business, but they will ultimately want a full bank.

There are clients who will start through the banking business, but they will ultimately discover they also need the acquiring business. They will need more products, such as working capital, a secured account, cash management, a foreign exchange or a derivative transaction. They will also need to capture cards in their business, whether online or in the physical world. Anyway, that is how we have been operating the acquiring business at the bank. The second question is...

[Daniel Vaz]

I think you hired 700 tech employees this quarter, a quite remarkable figure given the change over the last few years. Is there any specific guidance you can give us? I know you are working on plenty of projects at the same time, but is there any specific direction you want to take in the short term?

[Milton Maluhy]

Absolutely, Daniel. Again, this is an excellent question.

Firstly, you need to look at the mix, looking at the mix of the number of tech employees in relation to the total number of employees in the bank, this figure has more than doubled in the mix. We came from a base of about 7%, and we are already running at 17%, 18%. This shows that the bank has completely changed the way it "produces", delivers services to clients, modernizes platforms, and the importance technology has gained within the organization, not as a support, but rather as a business area.

How we organize ourselves, the working method and how much value we have managed to ultimately deliver with all this technology investment made for many years, has yielded very strong and important results for us. We reached a point where we have to be very careful, because often it's not by hiring more people that you get more deliveries given the limitations and interconnection of the platforms. We often find ourselves in a situation where there is no point in hiring 100 more people, as there are redundancies, limits, monoliths that have not been changed into a component structure.

With all the platform modernization, we found an opportunity to accelerate the delivery of a very strong value to individuals. This strong opportunity has arisen to accelerate the implementation of digital projects to change the client experience, the NPS, level of engagement, and loyalty. Concurrently with One Itaú, which has been significantly accelerated, it was also important to open up and advance even further on other fronts.

We carried out a study and concluded that it was possible to add more people, more technology staff, to accelerate some projects, processes or changes, features and client experiences and journeys with much more deliveries, what we call "throughput". We thus decided for this improvement.

I wouldn't say it's a 100% increase for individuals, but 95% of this increase is focused on individuals so that we can accelerate several value delivery projects for our clients. The focus is there and results are encouraging. Any of you who start piloting and testing our applications, solutions and features now and look back in six months, will see significant changes in products and solutions, in the context, journey, experience, and delivery of value to the client with much more completeness than we have today.

There is much more quality in the standard language design. Therefore, big changes are happening at a very strong pace.

[Renato Lulia]

Great, thank you Milton. Next question comes from Bernardo Guttmann, from XP. Good morning, Bernardo.

[Bernardo Guttmann]

Good morning, Renato and Milton.

Thanks for the opportunity to ask questions and congratulations on your earnings. I wanted to understand a bit more about the growth levers in the bank's portfolio for individuals, more specifically the payroll loan segment, which is a very significant product in the retail business portfolio. You have intentionally reduced your portfolio over the last few quarters due to the INSS cap. it would be interesting to understand a bit more about the strategy in this segment, the bank's appetite to grow its portfolio again.

Sticking to this front, we have seen greater aggressiveness from a digital competitor with more aggressive rates. Could you please also comment on this competitive environment and the strategy to retain these clients? Thank you.

[Milton Maluhy]

Thank you, Bernardo. Thanks for the question; it's so good to see you again. Thanks for your congratulating us.

Let me talk about Payroll Loans a bit. Payroll Loans have N angles from which we can explore them. The first one is that our portfolio is well distributed.

We have a portfolio for INSS beneficiaries, which happens to be our biggest one. The bank has a very significant position in this business segment. We have the private portfolio, with a very significant market share despite a much smaller market.

Although the share is large, nominally it is a smaller portfolio. A portfolio of similar size, which is a portfolio made up of government bodies that we have been growing. This was a major gap that we've been trying to fulfill over the last few years. The Payroll for Minas Gerais beneficiaries is perhaps the most emblematic, which we've been able to grow significantly with this audience. We've been able to do this in several other agreements, not just with the Minas payroll portfolio.

The bank has had a significant change thanks to the portfolio for INSS beneficiaries. Firstly, as the INSS cap has brought to everyone a reduction in supply in the market, it is not a specific issue of Itaú Unibanco. We ended up reducing the portfolio, affecting the demand and consumption of this line, which is the cheaper for retirees, due to a cap.

The market has a track record of always being regulated by prices. Competition has always been around. Competition doesn't just take place at the branch counters.

It also takes place through correspondents or alternative distribution channels. This has always been a very competitive market. This cap has forced a market dynamic to leave out retirees and pensioners who have lost access to credit lines, due to the level of interest rates. Therefore, some specific audiences, especially the elderly, who have a specific demand, ended up losing credit offers.

This has ended up impacting the system. As we have a significant position in this market, it had an impact on us too. My second comment is about our migrating a large part of the production, not all of it. In the past, the external channel accounted for more than 60% of the production for us, but today it is quite the contrary, as we have grown in the banking channel, that is, our branch channel itself, internal not the external channel.

Why? Because this price dynamics with the cap become more competitive and you can offer payroll loans with profitability and a fair minimum return. Correspondents include a commission, in addition to the natural challenges of the channel, and this ends up removing the production from the correspondent channel. This cap leads to a big impact. I was just responding to Daniel about the issue of platform modernization and features.

We believe that we really need to advance in the payroll loans through digital channels. As this is highly prioritized, part of this additional investment in technology, with the resulting increase in people, involves the need for products and services to be more complete, with payroll loans becoming one of the significant products that will be impacted by this change in experience. We can become much more competitive with this view.

Funding is a major issue for everyone at all times. Looking at the whole, our funding business is very competitive, with perhaps the cheapest funding cost in relation to the market. We always work on with transfer pricing to ensure that you are not subsidizing a business given the opportunity cost of that cash that could be at the limit in terms of public bonds. How do we allocate and create transfer pricing that is competitive for originations?

We can see room for growth, as we've been growing in the various portfolios, but the INSS portfolio has decreased year on year. Anyway, we believe that with the digital offering and change in mix, channel, production, we will become increasingly competitive in the product, considering all its derivatives and variations. Thanks, Milton.

[Renato Lulia]

Thank you, Bernardo. Next question is from Brian Flores, from Citi. Hi, Brian.

[Brian Flores]

Good morning, Renato. Good morning, Milton.

Thank you for the opportunity. My question is about the commissions and fees line. You have a line called financial advisory and brokerage services.

DCM was very strong, as Milton said in the quarter, and you have made some structural changes notably to the client channel. Looking ahead, should we think of results closer to the R$2.5 billion delivered this quarter or a figure a bit more normalized downwards? Thank you very much.

[Milton Maluhy]

Thank you, Brian. This is a line highly dependent on market conditions. Demand, capital market, it surely is highly dependent on our clients' appetite to finance themselves, invest, and on macro and micro conditions.

Plenty of variables affect the performance of this line. We still think and have full conditions to continue working. We have no obsession with the market share, but when it comes to installed capacities, distribution capacity and market reading that the bank has, we end up having a market share above our fair share in several other businesses.

DCM is one of them, as historically we have always been leaders in this segment. We still believe that there are many business opportunities here. As capital market is much more open, as we observed this quarter, this line generates plenty of business, as clients take advantage of the windows. There was an important rate closing at CDI+. The market is highly attractive for those who need financing at highly competitive rates. The market is absorbing securities at CDI+, with increasing volumes and closing rates.

Therefore, this is a highly healthy dynamics. How sustainable is this dynamics? Time will tell. It was a record, stronger quarter than average for DCM, but we expect a certain normalization over the next two quarters.

I don't know if the upcoming quarter will be at a high, in terms of results and dynamics as we saw in the second quarter, but the market dynamics continue to be quite healthy. It's difficult to project this line. We don't see any chance of growth in the equities market in the short term, although there will always be one deal or another, plus a follow-on.

These will be one-off transactions, such as M&A, and the more active market in investment banking is the DCM segment. We expect it to be normalized. I don't believe it will continue at the pace recorded in the second quarter, but given our fair share, if the market continues to be very buoyant, we should continue to take advantage of these opportunities.

[Renato Lulia]

Perfect. Thank you, Brian. Let's link to the next question, from Tiago Batista, from UBS.

[Tiago Batista]

Hi, Tiago, good morning. Good morning, everyone. Congratulations on the earnings.

Milton, you commented earlier on capital optimization and that it would lead to the bank's ROE reaching about 24% consolidated and 25% in Brazil. If I'm not mistaken this should be the highest level since 2015 or something close. A few years ago we were discussing whether Itaú's ROE, for example, would converge to the mid-teens given the competition from newcomers, which is clearly not happening.

My next question is for you. Is this ROE level at 24% or 25% for Brazil sustainable in the medium term? Do you have any plan to increase the frequency of capital optimization?

If I'm not mistaken, today you are optimizing capital once a year at the year-end if they pay extraordinary money. Could this be recurring, maybe twice a year, so we can actually see this ROE reaching close to 24%?

[Milton Maluhy]

Amazing, Tiago. Thank you.

Since we don't do the guidance for the ROE and we don't usually project ROE in the long term - we project a lot of value creation, which basically has a direct relationship with the cost of capital – we've been able to deliver such profitability level for a number of reasons. We are going through a very benign credit cycle, with wholesale operations reaching a much higher profitability level.

Retail business used to have a higher ROE than the wholesale operation, but we had never worked on and operated with this profitability level in wholesale as in recent years. This is perhaps the shift from what was said a few years ago to what we are seeing now. We were able to increase the profitability of the wholesale operation, in the broadest sense of the word. In other words, it is not just Itaú BBA with middle-market and large companies or the Investment Banking or the entire cross-selling and surrounding area, but rather it has a lot to do with Wealth Management, our entire asset that plays a major role in value creation for the wholesale business and our Latin American operation that has also been evolving over the last few years.

What wasn't then considered was our capacity to take the wholesale operation to the current sustainable profitability level. This has nothing to do with a sustainable "jump" in profitability. We've been able to keep the profitability of the wholesale business segment quarter after quarter.

Profitability even increased further this last quarter. Capital optimization plays a huge role, as does risk management, increased market share, creation of new businesses, increased share in products and services to generate cross-selling, fee business, etc.

It has to do with a great deal of completeness. We've been able to lead a large part of these businesses, and rank at the top positions of a number of rankings. This naturally brings a huge boost to our wholesale operation.

Looking ahead, it depends on very timely macro and micro issues. We continue to operate at 20% plus. When we look at the guidance, it is the ROE, that is, not below 20%. This year, adjusted for appetite, we are operating with a historically high level of ROE with a major catch-up in retail banking, which is another key point. We went through an adjustment, and then there was the pandemic and regulatory issues. Retail profitability fell significantly and we have been, quarter after quarter, increasing the profitability of our retail business, both for companies and individuals.

We used to run at 16% profitability in the retail business, we are at 23.5% this quarter, that is, there was a very important catch-up, quarter after quarter. This mix has been allowing us to increase profitability. Concurrently, in the corporation, everything that comprises the margin with the market, which is neither wholesale nor retail, has delivered value and created value and generated alpha with market risk. It is the combination of all these factors that has led us to operate with this level of ROE. This is a scenario of perfect star alignment and we surely are subject to changing scenarios, changing circumstances and prospects. Looking at a reasonably short or long term, we are quite convinced that the bank will continue to deliver good profitability.

Looking at the various balance sheet lines, Tiago, you'll see earnings of quality and high recurrence. Mostly important, there are no events driving our results every quarter, as it basically comes to plenty of discipline and consistency in management and deliveries.

Regarding capital, in practice, as we go about doing and declaring dividends, we already made an adjustment in August. These are the dividends or interest on capital (IOC) declared in the last two quarters.

This is already an adjustment that we make. That's the first payout resulting from earnings. We still believe that once a year we should carry out capital management and optimization, at least based on the information we have today and the uncertainties we see ahead, such as regulatory changes, operational risk, a financial review of the Trading Book, the Solo Basis, the discussion on deferred tax assets (DTAs), IFRS-9, an increase in Basel credit risk, BIS III operational risk.

When you start piling up these uncertainties and the outlook for growth and opportunities, we think that doing this capital management, capital optimization once a year is quite fair. We also use hybrid instruments, both AT 1 and Tier 2, over the year, as we always think about optimizing the bank's capital base. Concerning dividend distribution, we may eventually change our mind and distribute extraordinary dividends in a certain month of the year or do it once a year.

This possibility always exists. We are not planning to do so, at least not in 2024. Our expectation is to close the year and have a good view first.

We must consider prospective opportunities, regulatory issues, good capital projection, and capacity to generate organic capital so that we can make good calibration and make another extraordinary dividend payment. Based on the information we have today, we will be able to make the payment of this extraordinary dividend. We also see the advantage of having a very solid capital base, because opportunities do arise.

Our portfolio grew strongly in the quarter and we expanded the bank's capital base. There is no healthier dynamic than having a strong balance sheet and being able to take advantage of organic or inorganic opportunities. What we know is what we still do not know things.

It's about being prepared to make any moves that may be necessary. We must be overly cautious, as the saying goes, if it ain't broken, don't fix it. If we decide to work with an impeccable level of optimization, we can leave something on the table.

Our goal is to create value. The core driver for all of us here is that we understand that there are opportunities to create value, to allocate capital appropriately and provide stockholders with good profitability. As it is not our goal to retain capital surplus, if we do our simulations at the end of the year, possibly at the beginning of the year, we will report to the market this potential extraordinary dividend. Once a year seems appropriate for us at this time.

[Renato Lulia]

You said your question would be about dividends. That is exactly what you did and that was the right question.

Next question comes from Mario Pierry, from Bank of America. Hi, Mario, how are you doing? Great to see you here. Good morning, everyone. Congratulations on the earnings.

[Mario Pierry]

Another very predictable quarter, with good trends. Milton, I wanted to focus on capital with the implementation of IFRS 9 next year. Have you managed to calculate the impact on your capital yet? My other question concerns Americanas. It seems that negotiations have improved, so is there any potential to reverse the provisions you recognized for Americanas?

[Milton Maluhy]

Thank you. Great, Mário. Thank you for your question.

Let us contextualize it first. This amendment to IFRS 9 ultimately brings an accounting change. We disclose our earnings in accordance with the BR GAAP, and our IFRS is more adapted to BIS III. There is also a tax issue, as you can no longer choose when to record tax expenses for the ALL along the year, so you have to record that amount for the year, along the year. It thus changes the dynamics of tax and capital optimization a bit, with the main impact on inventories because you have to, according to the rule, amortize it within three years from the date it comes into force. Let me start from the end to the beginning. Even if we had to amortize it in three years, there would be no material impact on Itaú Unibanco's capital.

This is the first message we must convey: that the bank does have the capacity, results, and adequate inventory to absorb these provisions and this expense in three years, starting next year, if this rule comes into force. This is thus the bank's view. When this change happens, it will certainly generate impacts of another kind.

As it affects capital optimization, there are smaller impacts on the ratio, because you stop optimizing that capital in the ALL weighing 100 and you start withholding other tax credits with a higher weighting level. Your consumption of tax loss carryforwards, the ability to absorb losses, decreases. There are surely impacts.

These impacts are immaterial to Itaú Unibanco, but not necessarily to the industry as a whole. So, what do we really believe? We believe there is indeed a debate taking place with the Central Bank, the Ministry of Finance, so that we are all aware of these impacts.

It is no use looking at Bank A or Bank B. We must look at the system as a whole, as we are surely involved in this debate. We believe there is a way to work on this standard to create conditions to avoid any material impact on capital in the system. Banks will thus be able to keep working, operating, granting credit and carrying out their activities without any material impact. Ultimately, each of us, each bank has a different condition.

I think the data is there, public data on tax credit, stock and absorption capacity. The assumption surely exists that much depends on the analysis you and I make of projected earnings over time. A tax reform is probably coming into force next year. Ultimately, what will happen if there is a reassessment of tax credits, the corporate tax rate falls? What will be the impact on capital?

There are several subtle details here. Therefore, this is an issue of everyone's interest. FEBRABAN is leading this discussion, and the CNF is very much involved, with either the Ministry of Finance or the Central Bank. I believe all banks are present at this debate.

To see if there is another mechanism, an alternative to the current rule. There are ways to do so by working with a waiting period and extending the period for amortization of inventories. These are the issues on the table.

We believe that the standard is important. No doubt, it will be implemented. The issue here concerns the timing, when it will actually come into force, notably from the tax standpoint.

I believe in the goodwill of everyone, as this is a common problem of the system and the government. By extension, also when it comes to the issue of collection, as there will be an impact on collection if all the banks start to advance most of the consumption of tax credits. People are aware of an issue that is common to all of us and they are willing to discuss it. However, we are still at the early phase of the discussions. We are having good conversation, but we still don't have more information on how this issue will be handled. As soon as the government makes a decision, this information will become public.

I really believe there is plenty of goodwill to mitigate or reduce some of this impact on the system.

[Renato Lulia]

Thanks, Milton. Thanks, Mario.

Next question comes from Nishio, from Genial. Hi, Nishio. Good morning.

[Eduardo Nishio]

Good morning, Milton! Good morning, Renato. Once again congratulations on the consistent earnings for the quarter.

I wanted to go back to the issue concerning the app. It is interesting that you are now again taking risks and implementing two apps. My first question concerns the update of Atlas as well, which I do not think has been mentioned yet.

What is your taking on the ramp-up of this product? That is a product other incumbents probably do not own yet. How do you think this new product can affect the industry? Could you please share with us the level of cross selling of the One's pilot plan? I think that it is the main objective of this product. How was the cross-selling of this product in this pilot plan and do you expect a 98% migration when you carry out the full roll-out of this product?

My second question concerns the sensitivity of margins that you have analyzed, as this is a very interesting issue. In addition to the margin, you also hedge capital. Can you please comment on the dynamics of these two important hedges, how you hedge against the volatility of the CDI rate.

How we should think about it in the medium and long terms. Based on your figures, we can conclude that, despite these times of lower interest rates, we could expect a higher risk-adjusted annualized margin. What do you think in terms of this dynamic in the CDI margin? Thank you.

[Milton Maluhy]

Wonderful. Thank you, Nishio.

Thanks for the question and for your congratulation to us. Let me start with Itaú One. Our core focus during this initial period, with pilots and discussions, was on the migration experience.

We are not “in a hurry” to try to push the cross-selling activity without having first a full and seamless change and platform migration. Firstly, the client needs to fell welcomed. I migrated from one platform to another; it improved my experience, the look and feel, the quality, the features, the products and services that I have available. The way we communicate with the client changes completely and this has been the central focus of our pilots so far.

These are our priorities number one, two and three: to ensure that the migration is carried out with quality, care and that the client doesn't feel like, "well, I migrated from platform and I'm having products pushed to me, I'm receiving offers and solutions", because this is not ultimately in favor of the client, but rather basically an old, wrong way of trying to do business with our clients. The way we think is the best is to start working more and more within the context of the client journey. Firstly we migrate, create context, the client now has an app with many more solutions, features, they start to have more frequent access to those different solutions, and we start to onboard within the context. If they register a PIX key, they now have a payment account.

If the client is in the Pix journey, they will have access to a payment through Pix credit within the context of the journey. This stage will come in a second moment, ok? Our pilots, I mean cross-selling pilots, are encouraging, but are still at the beginning. I don't think the sampling base is big enough to conclude that this is a significant pilot or it is worth reaching any kind of conclusion or assessment.

We are still in the initial phase of these pilots. As I said, priorities number 1, 2 and 3 right now are to make sure these clients are onboard a new platform, a new app, a new journey. Cross selling must be done within the context, with quality and great care so that we can naturally show these clients the significant value in understanding their needs and migrating to this new platform.

This is the One Itaú, a work in progress. Perhaps next quarter I will have more data to share with you, about migration and pilots that may have been carried out. Then, now concerning Atlas. It is important to contextualize Atlas in this scenario.

We do not see Atlas in the same way we see One Itaú, as something we have to ramp up, improve and reach 15 million clients to be served overnight. Basically, Atlas complements part of our offering and value proposition that was lacking.

We have invested plenty of time to understand the entrepreneurs’ needs, talk to clients, understand their demands over the last few years, and we have carried out a relevant review of our entire service model, consultancy, proximity, and product, everything about our corporate business unit. We have recently carried out a thorough review and repositioning campaign. We only conduct a campaign when we really have a major change in the value proposition and offer to the client. This repositioning campaign is very much about that.

Why? Because we have been able to grow with great quality in our corporate business and we believe this is a good moment to grow. By growing, winning over new clients, expanding our bases and having a repositioning campaign, we are ready to further scale our corporate operation. How does Atlas fit into this? As another value proposition.

Inside the corporate pyramid, you have various segments and, for each of them, a very niche value proposition, as we understand the entrepreneurs' and clients' needs and what they are looking for. Atlas comes in here for those corporate clients who have a fully digital need, who want to self-serve, who need a simple product, within a certain context, with artificial intelligence. A client whose needs we can understand based on data and deliver context within the journey.

Although Atlas is also in the initial pilot phase, we already have some thousands of clients operating with this platform. Our expectation is that as these clients become increasingly digital or have more digital or simpler needs, Atlas will fit their value proposition. This product cannot be seen as a business apart from the bank, as it is ultimately a part of the corporate business unit's offering, which serves both more sophisticated, high-end clients with more complex needs and those clients with more simple digital needs.

I see Atlas the same way I see One Itaú. That's why we are not disclosing so many details. It is a part of the segment's value proposition. The next issue, margin. Our business surely has some sensitivity to interest rates.

With falling interest rates, we always have two major effects here. Firstly, let's consider the bank's working capital, which naturally suffers as you roll over this operation at lower rates, and the bank's liabilities, which also end up having an impact on the interest rate.

There are benefits from the fall in interest rates, as the interest rate differential, or IRD, falls, the cost of hedging also has an impact. I mean, these are the two major impacts. On the other hand, with a lower interest rate you have more opportunities for portfolio growth, and the average NPL rate tends to be lower, given the interest level. I believe our portfolio today is well balanced, either from the assets or liabilities side.

That's why we are able to navigate this scenario, whether with the market margin, the way we hedge our risk factors, or with the margin with clients, the way we operate in the various businesses. This is what brings balance to our margin. You surely have negative effects when interest rate falls, while you have several positive effects and even positive and negative effects in other scenarios. Our business portfolio is very well balanced.

You have wholesale business, retail business, which also offset one another throughout the cycle. That's why it's important to look at the risk adjustment. This is the core issue.

It was good that you brought up the hedging cost of the ratio, as we are very satisfied with a decision we made two years ago. When we made the decision to hedge the ratio, our first thought was: "oops, there is a cost here". When the decision was made, we thought this cost could reach about R$500 million by quarter. We then prepared the guidance for that year and removed R$2 billion from the margin with the market, which was the hedging cost of the ratio. What has happened since then? The IRD, in addition to a dynamic management policy, has had increasingly smaller impacts, but imagine what would have happened to our capital ratio if we had not hedged the ratio over all these years. Imagine it considering volatility.

The wholesale business portfolios grew by one-third due to exchange rate variations, in addition to the entire Latin American operation. If we hadn't hedged the ratio, what capital ratio would we have today? Would we have this surplus? Would we be able to grow with the same strength? Would we have this level of predictability to make major long-term projections? When we look back, it was the best decision made.

There is indeed an opportunity cost, as I left the P&L in other currencies and not in Brazilian Reais, given the IRD. However, at the same time, it brought high stability to our capital ratio. The more stability and the more security you have, the greater your ability to make decisions, to project growth, to make organic or inorganic decisions without worrying about whether there will be a capital shortage or surplus in the following quarter.

The central and obvious point is that, in a scenario of changes in interest rates, treasury operations, especially the banking book, have a degree of natural sensitivity, the differential at interest rate levels. However, we have always worked to have a framework of limits and room to be able to properly manage our assets and liabilities and do a good job in managing the banking book whenever we deem appropriate. We have been able to achieve this balance between the margin with the market and the margin with clients, with a much lower level of sensitivity to interest rates than one might imagine. We thus had the idea to bring this framework and historical series.

[Renato Lulia]

Thanks, Milton. I am going to ask Yuri to wait for a moment now, so we can go back, Milton, to another question. When responding about capital in the second question from Mario, from Bank of America, the answer was so complete and complex that we simply forgot to comment on Americanas.

Could you please comment on this issue, as I have just been reminded by the production team?

[Milton Maluhy]

You did very well! Our intention was never to skip the question, Mario! Let us go back to the question concerning Americanas then. I believe we have adopted a strategy of reaching a significant exit at the auction.

The data are set. We have decided to carry out a management strategy based on the information we have and to reduce significantly our risk exposure. We will surely continue with our interest.

As the interest we still hold in the company is very small, it is irrelevant. It continues with some line of credit, but we cannot give many details due to confidentiality issues. However, given that the data and information is public, I am giving more information. We are currently discussing about potential impacts.

The provision we recognized for Americanas in the balance sheet, in the fourth quarter of 2022, in subsequent events, was half of the amount. This by rounding up the figures. Basically half of these provisions were recognized as complementary provisions. We assigned a complementary provision for Americanas and the other part, basically half of the amount, went through the bank's profits and losses. When you have a reversal and therefore a receipt, it has an impact on several lines, from P&L to complementary lines.

We always hold discussions considering the quarter, which is going to end in the following months. We always review the portfolio, case by case, where there is or there is not a provision, where it is needed, among others, because the scenario changes, and we will have a clearer view. This is a one-off effect, as it will not be recurring over the next quarters. I think that not providing this information accurately now will not impact the modeling and flow that you have to carry out when you look ahead, given the separate and one-off effect of this business.

Possibly next quarter, when I come here to talk about earnings, we will give more details on how we handled the Americanas case. We will have a significant receivable from a provision that was 100% recognized in the balance sheet, either as a complementary provision or in profits and losses. This is positive news, as it constitutes a significant recovery given the provisions.

We haven't decided how to treat and allocate it yet. This issue is to be continued... You have asked a very important question, Mario, because I have read all the reports disclosed yesterday and it is always worth having a very accurate wholesale coverage rate, which by nature tends to be very high.

Why? Because we usually make provisions before there is any delay in payments. These clients are usually in good standing or they are renegotiating their loans, they have no overdue loans. Therefore, it gives you a false sense of a high surplus in relation to NPL. However, should any NPL arise, the degree of sensitivity to the change in the wholesale provisions is massive. Any tiny change in NPL will give rise to volatility.

That's why it is important to look at the total coverage ratio, rather than the wholesale coverage ratio, as the latter does not provide much information. We have recognized a provision for Americanas on the balance sheet, but the NPL is not there. Ultimately, we will be impacted by Americanas somehow and, depending on the decision we make, this impact may be on the coverage ratio.

I think that between 10 and 15 points in the total coverage index is reasonable, depending on how we treat Americans in the next quarter. This number gives an idea of how sensible this issue is in terms of materiality. It is much more material for the wholesale coverage ratio than for the total ratio.

It is important to be cautious when assessing the wholesale coverage ratio, as it is technically very volatile in terms of immaterial effects.

[Renato Lulia]

Thanks, Milton. Now let us move ahead. Thanks Yuri for holding your question. Thank you. Welcome to the call.

[Yuri Fernandes]

Thank you, Lulia and Milton, and congratulations on your consistent deliveries. Not a surprise, which is good news. I wanted to know about your wholesale business, and explore the issue of margin.

Your portfolio is growing 11%, year on year. You surely have FX, SELIC, perhaps Latam, here. It draws attention that the NII grew zero, the portfolio grew 11, the core did not grow, ROE remained at 28, so I think this larger portfolio implies that perhaps there is more leverage, considering assets to stockholders' equity. I wanted to understand the drivers behind these numbers, Milton. Is it Latam or the fees, are you monetizing clients through fees? Please explain a bit about the economics at the wholesale business.

Thank you. Thank you. Awesome question, and we will take advantage to make some clarifications. Firstly, it's important to understand how we determine the results and recognize them, from the business model standpoint.

As you've said, the wholesale business comprises Latam, and Asset. Let's set them apart and look just at Itaú BBA, notably those activities more related to credit. Take a look. We had been working with 12% of capital, which is what we use for the minimum dividend, also allocated to the business.

We made the decision in the quarter to allocate to business the capital of 11.5 and leave the capital surplus of 11.5 until 13.1 in the bank's corporation business. Looking at the business model, we disclose the retail business figures. We disclose the wholesale business and also the corporation plus margin with the market.

What happens when you do such a thing? Firstly, there's an automatic impact. I'm allocating less capital to the business, as I've changed from 12 to 11.5. This is the first issue.

The second one is that we use Selic in the business. Although we hedge the bank's working capital at several vertices, in the business model we use the daily Selic rate. Any fall in the Selic rate will generate immediate sensitivity in the business, but not in the corporation, as the latter is operating at longer vertices.

Since we allocated less capital to the business, because I went from 12 to 11.5, and the AEC, the economic capital allocated to the business, being lower, it yields less interest, because it has less capital and the Selic rate fell. This is directly reflected in the net interest income, the NII. The NII has an important component of the working capital effect, whether from the change in allocation from 12 to 11.5, or from the structural drop in interest rates in the period.

I believe these are the two main effects. Another important effect is that when we manage the business, we consider the NII and the commissions and fees and result from insurance services. Because a good part of the credit cross selling carried out and in the NII is recorded in the line of commissions and fees and result from insurance services. There you have all other business. From FX to investment banking fees, which is a very strong franchise.

You must consider a third effect when looking at how significant our growth was this quarter. Mostly of the portfolio was made up over the last months. Therefore, it impacts the average balance, which generates a lower NII.

You thus have a lower average balance, because the growth was more at the tip end, and you were unable to fully capture this effect. There are the two effects of capital, one is related to the 11.5, when we allocate less capital, provide less return on capital to the business and there is the falling interest rate. Another effect is that most of the earnings remains at the lien of the commissions and fees that balance this whole profitability from the client view.

When you look at the whole scenario you can see the effect and that's why the ROE of the business increases. Why? Because I have less capital allocated, and you can call it more leverage in the ratio of 12 to 11.5. Now, I take that surplus to the corporation.

There I have this capital surplus, from 11.5 to 13.1, with the effect against the Selic, it remains at the corporation, and the effect of the margin with the market. That's how we disclose the business model and that's why you see this specific effect on the wholesale business.

[Renato Lulia]

Perfect. Thanks, Yuri. Next question comes from Arnon, from Santander. Hi, Arnon. Good morning. Welcome.

[Arnon Shirazi]

Good morning, everyone. Good morning, Milton! Good morning, Renato. Congratulations on the earnings. A profit worth R$10 billion. Congratulations on the brand.

My question concerns your credit card portfolio. Your share of revolving credit and installment payment plus interest has decreased significantly compared to last year. I believe this has much to do with the de-risking process you've mentioned. Will you perhaps sometime resume activities with a higher risk appetite, notably for low-income clientshow would it relate to the increase in the share of installments and revolving payments

[Milton Maluhy]

Thanks, Arnon. Great to see you here. Thank you for the question and for the compliments. I guess you've just hit the nail. The effects of the de-risking strategy brings in a series of benefits, related to ALL and net financial margin. But it seemingly has an adverse effect, as it reduces, given the profile of the remaining clients, the propensity for financing through the credit card, either through revolving credit or installments with interest accrued on the product. As our portfolio is more focused on middle and high-income clients, we have an interest profile with no interest that is different from the market.

We reached 14% of the portfolio financed with interest for a portfolio of 86%. We always talk about interest-free installments and another clear fact is that of our R$130 billion in cards, 86% of this portfolio does not pay interest, but we still have the credit risk of this portfolio. We only receive an interchange fee that is in the commissions and fees line.

This evidences the anomaly of having just 14% of this portfolio with interest accrued on cards. What's our view? Firstly, we must be very careful because we are always looking at the client and their needs and trying to offer them the best financing product at the most competitive rate. The credit card is not a consumer finance product.

In my opinion, it is a very efficient payment product but, on the other hand, not necessarily the best financing product, as the client needs to finance their debts through this product. The client always has to search other alternatives. The revolving credit is clearly not a consumer finance product.

It basically solves a delay in payment or the client's inability to pay off the balance and obtain a credit line with more competitive conditions, such as a credit plan, a payroll loan, home equity, whatever credit facility the client has access to. In our view, as the portfolio stabilizes, we will possibly see some increase in propensity over time, but it is a portfolio with a different risk profile than we had in the past. The biggest impact on the P&L of cards is the NPL margin, which is when a client is no longer in good standing and will be charged very high fees.

From the point of view of financial health of earnings and its quality, not a good quality product. We have been working with a lower level of propensity. It will depend on the cycles ahead, on the evolutions of the product we have been working on to offer increasingly competitive conditions and financing solutions through credit cards. This will be an evolution.

It is possible that over time we will see some evolution in this product. The client profile dictates the pace and ultimately the fact that it is a medium and high income portfolio leads to a lower level of propensity.

[Renato Lulia]

Crystal clear, Milton. Thank you. Let us move back to English, as we have here Nicolás Riva, from Bank of America. Hi, Nicolás, welcome back to the call.

[Nicolas Riva]

Thanks, Renato and Milton. Milton, I have some questions about your bonds and Tier-2 and AT1. Even though the call option is close to 29s in November and at the four 5/8s of AT1 in February. You have not made the call for AT1 so far, but you can make the call option until the coupon payment date.

It’s interesting to look at the values, as it seems the market is assuming that you won't make the call of the four 5/8s in February, they are already trading below the value threshold, but the two AT1s that you didn't call in the past are trading above the value threshold and it's still possible to call them every six months, on each coupon payment date. At the Tier2, even though you said in the past that you cannot give us details of the call option, Tier2s will lose the capital treatment if it is not made, which may be an incentive to call the 29s in November.

The market price is at the call value, which will allow inferring that the market assumes that you will call the 29s in November. Can you provide us with more information on the Tier2 and AT1 call options? Thanks.

[Milton Maluhy]

Thank you, Nicolás, it’s always great to see you again. Thank you for the question. We will stick to our previous decision when it comes to AT1. We are analyzing the economic scenario to define the new price of a potential new issue. We believe that today we would pay at least an additional 100 basis points if we exercised the call and tried to go to market with a new AT1.

Amid this economic scenario, we do not feel comfortable to exercise the call due to the impacts on the new issue, so we will not make the call and this is the same logic we adopted in previous calls. We know that every six months we have the opportunity to make a decision, and if we believe there is any change in the market that allows us to work differently, we will be happy to make the call. However, based on the information available today for AT1s, we do not think this is the case, due to the repricing and resetting we would have to do on these transactions.

We have some calls for Tier 2s in November, but we haven't made a decision yet. It is important to emphasize that we constantly analyze whether we will make a new issue, whether the issue will be domestic or abroad, the size of the opportunity, the new premium issue, the new price if we have to go to market. Moreover, it is important to clarify that we haven't made a decision about the Tier2.

There's plenty to be discussed and when the decision is made, the market will be the first to know. You are right, you lose the ability to use that for capital in the remaining term of those bonds. This will be considered in our decision making. I emphasize that we haven't made the decision concerning the Tier2s, we're still discussing it and when we have a position, we'll let you know.

[Renato Lulia]

Thank you, Milton and Nicolás. Our last question comes from Carlos Gomez, from HSBC. Great to see you again!

[Carlos Gomez]

Thank you very much for two things: first for your generosity with your time since this is a very long call and second for including the cost of Argentina. Not only on profits, but also on costs, so we can check out the full scenario.

A very simple question, you mentioned your uncertainties previously and are always negotiating some aspects of your activity with the Government. What is the focus now? Last year we talked about credit cards. What is the main topic discussed by banks now? Is the treatment of DTA? Cards? Or the IOC? What are your comments?

[Milton Maluhy]

Great to see you again, Carlos. Thanks for your words. It's always a pleasure to have plenty of quality time with you here and delve into the bank's figures. Thanks for your comments.

DTA is the most prevalent discussion now. Always with a focus on social contribution, whether it will increase or not. I believe it is clear, and Minister Haddad made it very clear recently, that the idea is not to increase the social contribution of banks because we must take into account that we have the highest rate when compared to other banks and other countries in the world. DTA is part of these discussions.

Credit cards will always be a recurring discussion, I do not believe that the structural problem we have has been solved, but it is a recurring discussion and the topic always arises. However, the main current theme is DTA.

We have no new discussions on IOC or on the reform in capital and earnings. There are general discussions about the economy, market, interest rates, taxes, so these are normal discussions and nothing that deserves to be highlighted here. These are day-to-day business discussions.

[Renato Lulia]

Thank you, Milton and Carlos. And with that, Milton, we conclude the question and answer session. We have answered all the questions from the analysts who engaged with us today at the call.

The questions via WhatsApp, which go directly to the IR team, will all be answered directly by the IR team. I hand the floor back to you, Milton, to wrap up our earnings review for the second quarter of 2024. Thank you.

[Milton Maluhy]

Wonderful. Thank you Renato, for hosting it. And thank you everyone for your participation.

It's always a pleasure to be here with you. We really try to hold a very executive presentation so that we have time to talk, go through the points, and go into the level of detail with the maximum transparency possible. You will never leave without an answer.

Ultimately, we will always take care of the quality and transparency of our information. Therefore, I wanted to take this moment to say thank you. We take it very seriously and are highly honored with the recognition we have recently been granted by the Institutional Investor Research (II Research), in which we were recognized by you, both on the sell-side and the buy-side, in all categories of this institution. We were much honored. This is the third year we have been recognized, and the second consecutive year we have actually managed to be recognized in all categories.

We can tell you that this does not make us feel any easier, on the contrary. I believe the responsibility increases, as does the will to do things better, to deliver and seek increasingly more. To be increasingly closer to you, with maximum transparency, by delivering data, information, quality in our financial statements and disclosures and calls, quality of our Itaú Day, which is so important, when we try to open up as much as possible.

We are always providing a bit of strategy, telling a bit more. As we really value this relationship with investors and the market, we know that sometimes we can err on the side of caution, but it is all right, because this helps build a long-lasting relationship of trust. So thank you very much for the recognition from all of you and everyone who is here watching. We have a full commitment to the bank, to the organization, and to Brazil.

We will continue working very hard to continue delivering solid, consistent and, above all, high-quality results. Always thinking in the long term, never sacrificing the short term to deliver results, whether through revenue growth or expense reduction, we will always invest in the franchise and work hard in our 100th year and for the next 100 years.

Okay, everyone? Thank you again for your patience, time and dedication on the call and for all the questions made. Take care, everyone. We will see you soon in one-on-one meetings and for some of you until the next call. Take care.