Transcription – 3Q23 Results

[Renato Lulia]

Hello and good morning everyone! My name is Renato Lulia, and I'm the Head of Investor Relations and Market Intelligence at Itaú Unibanco. Thank you very much for participating in our conference to discuss our earnings for the third quarter of 2023, which, as always, we are broadcasting directly from our office at Faria Lima.

Today's event, as usual, will be divided into two parts. In the first part, Milton will go through our performance and our earnings for the third quarter of 2023. Right after that there will be a Q&A session, during which analysts and investors can interact directly with us. I'd also like to give you some instructions on how to get the most out of today's meeting. For those who are accessing our website, there are three audio options on screen: the entire content in Portuguese, the entire content in English, and the original audio. In the first two options, there is simultaneous translation. To select your option, just click on the flag in the top left corner of your screen. Questions can also be sent via WhatsApp. To do this, just click on the button on the screen for those who are watching on the website or send a message to (11) 97825-5707. Our presentation today is available for download on the website screen, as well as on our IR website.

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

[Milton Maluhy]

Good morning, everyone! Welcome to our earnings call, supported by a very objective presentation. I'm going to run through the figures for the quarter and emphasize the Argentina effect which, as you saw, on Friday we settled the sale of this operation. I'm going to show you how this affects our earnings and how the guidance is kept unchanged, except for just an adjustment that removes the effects of Argentina from the seven months that this operation was part of our earnings and how we've disregarded the remaining five months in the guidance that's been published in the second quarter.

So, let's get started. We've delivered a recurring managerial result of R$9 billion, which points to very strong earnings that has grown 3.4% quarter over quarter. We've reached a consolidated ROE of 21.1%. Brazil's ROE, which is the most comparable with the market, was 22%, up half a percentage point. It's key to highlight that if we were working with our capital within the risk appetite threshold approved by our Board, this ROE would be around 24%. I'm telling you this just to give you an idea of the effect that capital has and how it dilutes ROE by 2 percentage points.

In Commission and Fees and Result from Insurance operations, the growth was 3.6% quarter over quarter, reaching R$12.9 billion.
At a cost of credit of R$9.3 billion. This is the first nominal drop we've seen, with a 1.9% decrease quarter over quarter. This is very good news from lending. The NPL rate is absolutely stable, with no news, which is in line with the message I've been sending you for a few consecutive calls now. The level 1 capital ratio, which I mentioned just now, reached 14.6%, an increase of 1 percentage point in the quarter. I'll show you in a moment our CET1 running at 13.1%. So, there was also a significant increase in the bank's capital.

Speaking about the loan portfolio: the individuals portfolio grew by 6%, year over year. As for the quarter, the credit card portfolio is still decelerating. But I'll emphasize this in a moment. Personal loans portfolio grew by 4.2% in the quarter. Payroll loans portfolio reduced and vehicles portfolio increased slightly in the quarter. So, the portfolios in general, except for personal loans, as mentioned, grew 6% year over year. The SMEs portfolio grew 3.2% year over year but we're already seeing a significant pickup this quarter, growing 3.3%, which means that the quarterly effect is already above the trend we had seen for this portfolio. And in the credit portfolio as a whole, after adjusting the Latin America effects, we see growth of 4.7% year over year and 1% increase this quarter.

The message I want to leave you with, which for me is the most important one, is that in the portfolios where we decided to not stop growing, they continued to expand significantly. Thus, if we take the two middle- and high-income segments, Uniclass and Personnalité, the portfolio grew 3.7% in the quarter and the individual loans portfolio grew 0.6% on a consolidated basis. Year over year, this portfolio grew 17.5%, while the individual loans portfolio grew 6%. The portfolio of middle- and high-income cards grew 3.6% in the quarter against a drop of 0.5% on a consolidated basis, and by 15% year over year, against a drop of 0.8% on a consolidated basis. And in middle- and high-income personal loans, we grew 6% in the quarter and 24% year over year. This shows that we've been increasing our engagement in the middle- and high-income segments, where we've delivered and performed very strongly over the quarters and we've made a portfolio adjustment. We've made a significant de-risking in our portfolio. This saved the bank's almost 200 NPL points throughout the period. The portfolios where this de-risking was more significant were in the credit card portfolio, which already had a significant nominal drop in the period, and also in the vehicle portfolio, to which we had to make very significant adjustments. In the other portfolios, we continue to grow and especially among those clients that are in fact resilient "throughout the cycle," as we say. Through the cycle, that's how we've managed our portfolio. When we look at the payroll loans portfolio, for example, we have two key messages. The first is a drop in the "INSS" public pension portfolio, which is in line with the information we've been disclosing, as Febraban itself has done, due to the limits that have been set. When this happens, the access to a cheaper financing facility cannot be made available to pensioners, who end up electing more expensive facilities due to these limits now in place. We can see these portfolios dropping. On the other hand, we have managed to expand government and private companies payroll portfolios, where we've grown by over 12% year over year in both cases.

As for credit origination for SMEs, we see that it has continued to grow since the first quarter of this year. For large companies, there was a slight increase up to the second quarter. And since then, we've seen a growing demand, already reaching 118 year over year on a 100 baseline, which shows that we've managed to grow with quality by always focusing on the net interest margin. To focus on generating Operating Revenue is not enough, we have to look at the generation of Operating Revenue, the related cost of credit, and the return thereon. By analyzing the net interest margin, therefore, already adjusted for the service cost, we may conclude whether these transactions are adding value to the shareholder in the long term or whether they are simply showing a growth in earnings that does not bring a return on the shareholders' capital. This is the type of management and work that we've done consistently each quarter. This is our daily work.

As for the financial margin with clients, we have good news. The line expanded by 700 million in the quarter, a 3.2% growth. It was a well-distributed and balanced growth, with the effects of volume, the volume of liabilities, number of working days, some effects in Latin America and others. These are very sound results and, for the first time, to increase transparency, we've broken down the Argentina effect.

Argentina and working capital had an impact of 3.2 billion last quarter, with 2.9 billion from working capital itself, and 0.3 billion from the Argentina effect, which contributed with approximately 100 million to our monthly earnings.
When we look at the end of the graph, we get 3.1billion. With 3 billion from working capital, which compares to 2.9 billion, it shows that we've managed to adequately hedge our investments and growing equity. And this quarter we only have one month from Argentina. So, we show this result considering July, as the earnings of the other two months were not affected because we stopped to account for this asset as a consolidated bank as the Argentina operation was recorded as an available-for-sale asset, due to the sale process that was underway.

When we look at the consolidated margin, it expanded quarter over quarter from 5.1% and we reached 5.6% in the consolidated margin this quarter. And when we look at Brazil, we also see this expansion taking place, reaching 5.9%, 30 basis points in the quarter, which is a very strong result.

As for the financial margin with the market, the quarter was in line with previous quarters, reaching around R$700 million, after the effect of the cost of the capital index hedge. The effect in Brazil is in line with these figures. We see R$1 billion in margin with the market and, in Latin America, a slightly lower figure. Remember that here we only have one month of Argentina and two months where we've already recognized this investment as available for sale. Thus, it doesn't impact earnings. This was the effect of the margin with the market, with no particular news.

I'd like to detail some information in Commission and Fees and Result from Insurance operations. First, the strong quarter-on-quarter income from credit and debit cards as we've managed to expand issuance, which grew 4.5%. The acquiring business grew 2.8%. It's worth noting that, in light of all the integration work, better management, and proximity to the clients, the acquiring business is going through, in short, a process of engaging our clients that has helped us to reprice and adjust our operation as a whole. Year-on-year growth was 18.9%, a very sound result. Transaction volumes are also sound, growing 5.3% in the quarter while posting good profitability, which is the most important.

And in issuance, we grew 2.9% year over year, with a volume expansion of 2.7% in the quarter. We remind you that this was the portfolio where we've actually made the most adjustments. We've reduced substantially our exposure to the open sea and this adjustment, of course, not only affects revenue but also the portfolio growth.

When we look at the advisory services and brokerage line, we see a very strong growth, of 22% in the quarter, and 21% year over year. In further details, we came first in the investment banking ranking, in ECM, M&A and DCM, achieving 18% market share in ECM, 15% in M&A, and 29% in DCM, which shows that we've been consistent and delivered very solid earnings in this line.

When we talk about asset management, there was actually a slightly lower year-on-year growth, with an expansion in the quarter, but the most important thing is to show that the open platform grew this quarter. As a result, we're already seeing a certain migration trend to this platform. And the line of own products has been growing a lot throughout this cycle of monetary tightening, so the pickup is lower quarter over quarter, with an increase of 2.2%.

Finally, in insurance, we grew 19% year over year, with a growth of 5.4% in the quarter, which shows that we are consistently expanding our insurance operation and increasing the value of this operation within the bank's balance sheet.

In terms of credit quality, our first message is from a global standpoint. When we look at Brazil, at the total, and at Latin America, short term delinquency reduced in all three cases, and, coincidentally, in all of them fell from 2.5% to 2.3%. This shows that short term delinquency is well-behaved.

When we look at the NPL 90 days on a consolidated basis, the total is fully in line, just like in Brazil and Latin America.

And when we look at the short term delinquency in Brazil, for the second quarter in a row we have a reduction in the individual loan portfolio, from 3.5% to 3.4%, and now 3.2%.
In fact, the first quarter is usually more pressured by the previous quarter's spending and we've seen that in two periods we've already returned to the levels we had before the start of the year.
In very small, small and middle-market companies, the indicator fell by 10bps, while in corporate segment the indicator went sideways, without any news.

When we look at the 90-day NPL in Brazil, in line with what I said last quarter, we have an absolutely stable rate, and our best expectation for the fourth quarter is a drop in the NPL for individuals. Bearing in mind that this is a portfolio that has decelerated a lot, so there is a much more controlled overdue effect and a denominator effect, both show that we have a very healthy portfolio and no worries.

In SMEs, we're in line with what I said in the last call, that we expected an expansion of around 10bps, and that's what happened. But our expectation is a drop in the fourth quarter, as we see that the short term delinquency is reducing. Thus, we don't have any specific concerns, our very small, small and middle-market companies operation is posting very strong returns, both in the middle market and retail. So, no specific concerns here. We have a very controlled cost of credit.

When we look at the nominal cost of credit, in this series we have the first quarter with a nominal reduction. It's important to remember that in the fourth quarter we had the effect of one retail company which ended up changing this figure. If it hadn't been for that, we'd have seen gradual growth over all the quarters. So this is the first quarter that we've actually seen a nominal decrease and in relative terms it's fallen to 3.2%, which is a very comfortable figure and with a portfolio that is growing.

In the renegotiated loan operations, we have two news: the first is that it appears nominally stable at R$40.9 billion and 3.5% compared to the portfolio, which shows a very controlled and well-behaved portfolio.

As far as coverage ratios, there's not much to say. You'll see a certain stability, only small effects, but absolutely stable. In other words, the bank's balance sheet continues to be very well covered and protected, with very adequate provisions.

As for non-interest expenses , this quarter is typically subject to stronger effects, such as the collective wage agreement. As a result, personnel expenses accelerated from the second to the third quarter, while other expenses are very much in line. Thus, non-interest expenses grew 8.4% in Brazil and with the effect of Latin America, they grew 6.9%.

And what are the key messages? The efficiency ratios are quite good, clearly much better than what we've seen in the market as a whole, both in Brazil and on a consolidated basis, and these are international benchmarks; we've managed to deliver a very appropriate efficiency ratio, with two main messages:

The first is about the bank's core cost, or "run the bank", which is in line. In the nine-month period, compared to the same period in 2022 we grew only 1.1%. On the other hand, what has actually been expanding this figure is not just cost itself but the investment that we continue to make. As I always say, our goal is not to manage costs for the quarter. Basically, what we have to do to make our operation more productive, more efficient, thinking about how we invest in our operation by investing much more in technology, data, and business expansion.

So, we're always looking at the franchise over the long run, always with a longer time horizon. So, that's the reason for all these investments, which is still being absorbed by the P&L resulting in the level of profitability I've just mentioned. I believe, these are the key messages regarding costs.

The bank's efficiency program continues to make a very positive contribution. And in terms of transactional volumes, if the unit cost is the same as, lower or rising less than inflation, if we actually increase volumes and do more business, this is a benign cost. So we've still been able to finance all this benign cost expansion with all the efficiency program at the bank.

One of the most talked about topics lately is data. We've talked a lot about machine learning, models, generative artificial intelligence, among others. This is a topic that comes up all the time. So, what we wanted to do here was to provide a summary of our various initiatives. This isn't just a topic for a specific department, it's a topic for the whole bank. And we have some data that shows and reinforces how strong our investment and belief in this data agenda has been. Starting with our data structure, which has 100% of all the bank's data in the cloud, in a very modern data mesh architecture, which makes the data much more democratized within the institution, not being used by just one department as all department start consuming that data.
And not just consume, but adding their own data much more efficiently to the bank as a whole. So we've brought you some information that I think is relevant. We have more than 350 data scientists in the organization, more than 200 initiatives using generative artificial intelligence , more than 50 machine learning engineers, more than 150 professionals working with generative artificial intelligence, and more than 570 models currently being used within the organization.

One of the cases that I think is relevant, in terms of outcomes rather than output, is service. For example, we've increased by 45 percentage points the volume of client service that is automatically retained, through our models, using artificial intelligence. 72% of all calls made are already handled by artificial intelligence, with much greater efficiency, accuracy, and speed, and with improved NPS. And this is in line with all the investment in technology and efficiency that I've just mentioned. This shows a much more scalable and efficient bank in the long run. And we have a series of other initiatives, with greater security for our clients, since we're able to interact and identify the voice of a fraudster thus allowing us to protect our clients.

With regard to productivity and the corporate client experience, we already have a lot of information for every documentation analysis so that it can be done as accurately as possible. We currently have a 97% accuracy. We've also been using chatbots to interact with our clients. We've used our artificial intelligence models in different businesses and we have no doubt that this will be an agenda that has come to stay and will grow exponentially over the coming years.

We want to be at the forefront. We had no choice but to migrate our systems to the cloud and upgrade them. As for the artificial intelligence agenda, we have everything it takes to lead this process. We want to be at the forefront of this agenda. I'd also like to comment on a few topics about culture and people, which are very important to us.

We've recently announced two objectives: black representation in the institution and women in leadership. When we set this objective, we said that by 2025 we wanted to have 27% to 30% black representation in the organization. We've already reached 27.3%in July. 40% of our hires today are black people, which naturally means that we can evolve in these indicators.

We really believe that it's not just a diversity agenda. It has to be an agenda of diversity and inclusion in order to keep this flow sustainable over time and to ensure that these indicators evolve consistently. We're very proud of the work we've been doing and, as I always say, it's not a job that has a day and time to end.

This is the new normal and that's the agenda we've been working on. We also had a goal of achieving between 35% and 40% of women in leadership by 2025. We've already reached 35% in September 2023. So, we're already at the lower end of our 2025 target and we'll naturally keep moving upward. Regarding the hiring flow, our goal was to hire 50% of women in the flow. We've already hired 53.8% and here we are talking about an indicator of women in leadership. When we look at women in the bank's total workforce, we now have 54.3% women. We brought this indicators just to give you an idea of the importance of this agenda. And we have to constantly talk about this ESG agenda. Of course the narrative is important but the results you can deliver are much more important than the narrative. And every quarter we present some output, some focus to show how this agenda is part of our DNA and how it is one of the pillars of our culture. Regarding some acknowledgements, for the second consecutive year we were named the best company to work for by Great Place to Work.

And not just as the best bank. We won the best financial institution and also the best company with over 10,000 employees. What I always say here is that if we have happy and engaged employees, a strong culture, client centricity, naturally we will have satisfied clients. These are fully connected.

We won most amazing place to build your career, and we also won this award for the second year running. That's very good news. And last but not least, also for the second consecutive year, we won the Valor 1000 award, as the top company among banks. This shows a little of the recognition we've achieved. We talk about these acknowledgements with our feet on the ground and with a lot of humility.

This is very important for us to keep moving in the right direction, but with great care and humility, because we still have a lot to do and we believe that this is a longer-term agenda. We're not going to be complacent with these results. The bank has a lot to evolve and this is the agenda we will continue to pursue.

Now, radically changing the subject, I've talked about culture, I've talked about diversity, I've talked about inclusion, I've talked about awards and now I'm going to talk about capital. As I've said a moment ago, we came out from a CET 1 of 12,2% last quarter and we've already done a proforma last quarter, showing the positive effects of the regulatory changes, which have in fact materialized now with +0.9%.

As a result, we've reached 13.1% of the CET 1 capital ratio and our appetite is 11.5%, as defined by the Board. So there has been an expansion in all consecutive quarters, since the first quarter of March 2020, during the pandemic, when we made those material provisions. Since then, we've been expanding and growing our capital ratio. We have +0.4% growth in earnings already adjusted for dividends. We have the -0.3% of RWAs with the consumption we've had form credit, market and operational and the +0,9% I mentioned is basically the evolution of our models and all the regulatory changes, which leaves the bank at a very adequate capital level.

Regarding Itaú Argentina Bank, I'll try to be very objective, but it's important to emphasize this for you. Considering the earnings that we see on our balance sheet, the seven-month result of R$578 million, also poses an opposite effect in equity that doesn't go through P&L, which is the effect of inflation and the foreign exchange variation of the equity in Argentina.

So, if you look at earnings isolated, you get the feeling that it's an accretive investment. But deep down, when you consider the economic effect, from the stockholders' standpoint, we saw a seven-month loss in Argentina of R$113 million. As a result, we made the decision to divest especially in the retail business in Argentina, an operation that we had in this country for many years.

We'll keep a very small operation, in this case a representative office focused on a few corporate groups. We have a very close relationship, through capital market transactions, investment banking, some lending transactions, but we felt it was important to carry out this sale. The sale was completed satisfactorily with the regulator's approval and its financial settlement last Friday.

From the earnings standpoint, in the material fact, where we announced the sale, we said that we'd post nonrecurring result of approximately R$1.2 billion. And this is the result that is actually materializing in this quarter's earnings. So, this settlement of this impact on equity that has been accumulating over the years, which is the CTA that we disclosed on the balance sheet. And the balance sheet as of September 30 does not include any more the effects of Argentina because from July onwards we have the effect of only one month in the quarter, which is July. We started treating this asset as available for sale and no longer as a bank consolidated on our balance sheet. The result excluded was a credit portfolio of R$4 billion, an Operating Revenues of R$1.9 billion, a Non-interest Expenses of approximately R$650 million, and earnings of R$578 million reported in P&L, which is the figure I've showed you just now. Thus, we no longer include

Argentina in our earnings. As a result, we simply took the Guidance that had been released to you last quarter and we made the adjustment by excluding the impact of Argentina. How did we make this adjustment? We went back to the guidance and looked at what we had projected line by line for Argentina, over twelve months, and we simply excluded them from the projection. And now we're restating the guidance without any changes. Basically, what we're doing is excluding the effect of Argentina from the last five months, two months of which are from last quarter and three months from the coming 4Q23.

Thus, here you can see the figures adjusted across the board. The basic message is that our guidance is being reaffirmed. We continue to believe in the projections and we are delivering earnings within these lines. Needless to say, geography can always change from one side to the other side but all ranges described here absorb our best expectation of how we should end 2023.

This concludes the presentation and I'll now join Renato so that we can answer your questions during the Q&A. I'd like to thank you once again for your trust and say that we remain very confident in our agenda. We've been working tirelessly on this cultural transformation that I've talked about so much, this obsession with the client, with expanding all NPSs, ensuring that our business keeps evolving and growing. We still have a lot of opportunity for growth and we're going to continue evolving at the bank but always with that focus and that long-term view. Creating shareholder value is a mantra for us and it's something we have very strong in our DNA. Then, we're not going to fight for growth that leads to one or two quarters with better earnings that is not sustainable in the long term. We're going to keep this long-term view, as we've always done here at Itaú Unibanco. Thanks everyone, once again, for your time. I'll join Renato and we'll continue our talk. Thank you very much! See you in two minutes.

All the best to everyone.

Q&A – 3Q23 Results

[Renato Lulia]
Great, Milton is just joining us right away. Thanks for the presentation, Milton. We are now kicking off the Q&A session, which is the second part of our today's meeting. Let's just remember that this session is bilingual, that is, we'll be answering questions in the language they are asked. In the case anyone needs some kind of help in the translation, you'll have the option to choose the audio either in Portuguese or English. You can also send your questions via WhatsApp to 11.97825-5707. The list of participants is already very long. Milton, we have the first question here right now. Without further ado, shall we begin?

[Milton Maluhy
Yes, let's get it going.

[Renato Lulia]
We have my namesake Renato from *Autônomos* right here with us on video. Hello there Renato! Good morning, thank you for joining our call.

[Renato, Autônomos]
Good morning everyone, thank you for having me here.
Can you please comment on the improved ROE of the retail business? You recorded 100 bps (basis points) quarter-on-quarter, although the profit itself did not post a robust growth. I'd like to understand the drivers for this improvement and, in particular, the scenario for coming quarters, whether this improvement is here to stay. I'd also like to ask you to comment afterwards on your expectations on the coming meeting with the Central Bank, scheduled to address the credit card business. Thank you.

[Milton Maluhy]
Renato, thanks for your questions. Once again we'd like to welcome all of you.
Let me first comment on profitability. When we look at the quarter-on-quarter, the retail business result is practically stable, but with a quite different composition. The reason is that, in the turn of the half-year, we carried out a thorough revision of capital allocation, all regulatory changes. Capital demand in the retail business was reduced, resulting in a decrease in the capital economically allocated to the operation. But result remains stable. Why? Because the entire return on capital amount is left in the business. When there is less capital allocated to the business, you have less return on the capital allocated to the business. That's why there is less impact on the margin of operation, but the core of the operation has still very much improved. As you remove the impact of the return on working capital, the result remains constant. This is an operation that demands less capital. We have two levers here. There's the expansion of the operations in the companies segment, with even higher profitability and a more efficient capital allocation. There's the shift I've already mentioned we would be carrying out at the individuals business. We've already carried this out and we continue, quarter after quarter, gradually improving profitability. Therefore we indeed have an improved return. Although flat in the quarter-on-quarter, the result surged on a year-on-year basis. The individuals business continues to bounce back, with all possible drivers. There's more client engagement, less cost of credit. It naturally leads to a more efficient operation and therefore lower costs.
We've been able to work with all levers. The companies operation has recorded ongoing growth with high profitability. We've been consistently improving the composition of these two levers, as well as the insurance operation and the profitability of the retail business. We continue to believe in an upward trend ahead.
So this is one point.
The second question is about the cards business. As we are expecting an agenda with a series of associations, there'll be an outstanding debate, as usual. I believe the regulator is fully able to understand the different perspectives in this arena. It's paramount that the regulator listens to the entire market, to all participants. The most important thing is to understand the issues we want to solve. What are the starting points for this debate about credit cards? The starting point is that we work to reach to much lower rates of revolving credit and installment payments than the ones we have today. Why? Because we have a very high NPL ratio in revolving credit operations, and this is due to a so-called adverse choice. Who, among you, upon getting a credit card, has ever compared the rates of revolving credit and installment payments? You probably look at the reward program, whether an annuity fee is charged, and your experience with that product. And whether the credit limit is reasonable. When clients get this product, they don't expect or imagine that they will need to get financed. In particular because a credit card is not a good consumer financing tool, due to the way it is designed. Our approach is 100% based on this rationale. How do we transform the credit card, with a 40% share in the way people consume, into a much more efficient and competitive consumer

financing platform, expanding the offer and enabling the most vulnerable audiences, who end up using the revolving credit facility, to get back on track with more competitive rates? Rebalancing the credit ecosystem is the standout objective. Let's remember that the Central Bank of Brazil is the regulator, with the CMN, which will make decisions on the possible pathways ahead. Our only commitment here, Renato, is to ethics, to clients, to merchants who get financed under conditions that can be much more competitive. Our commitment is to turning the cards platform into a much more efficient mechanism to finance consumers. The experience takes place at the point of sale, as usual in all other countries in the world. Why is it different only in Brazil? There must be some inconsistency, some anomaly, and I believe it's such inconsistency that needs to be discussed and addressed. We have a positive expectation in relation to such understanding and diagnosis, regardless of the narratives around, because, I repeat, ethics is non-negotiable for us. We don't get into this game of narratives because we like accurate, technical, well-conducted discussions. This is our rationale. The Brazilian Federation of Banks, or FEBRABAN, is the entity leading this debate for financial institutions as a whole, naturally.

[Renato Lulia]
Absolutely! Thanks, Renato and Milton. We now link up to the second question. We already have Bernardo Guttmann from XP on the screen here with us. Hello there, Bernardo! Good morning and thanks for joining us.

[Bernardo Guttmann]
Good morning, Milton and Renato. Thanks for having me here.
I'd like to delve into the retail business segment a little further. The bank has made a very assertive risk-off move in this last retail cycle and now has started to reap the results with a NPL ratio starting to stabilize. You've been talking a lot about high-income clients and the bank is indeed very well positioned in this segment. On the other hand, some competitors have so far released their results showing greater appetite, already loosening the grip on retail. As Itaú was one of the first institutions to "put the brakes" on this segment, and didn't post bad results in this cycle, does it make sense to expand the portfolio to segments of clients more at the base of the pyramid that have been primarily targeted by fintechs?

[Milton Maluhy]
Awesome, Bernardo, good question! Thank you for your time on the call.
Ok, let me give you some perspective. Firstly, we're pretty sure of the decision –*a Monday morning quarterback indeed.* Looking back, the decision we've made to de-risk the portfolio has proved to be utterly right. Not just the de-risking strategy, as we haven't stopped growing in target segments over these quarters. As our portfolio is very large, with a card portfolio worth about R$125 billion, R$127 billion, that is, big numbers, we have a large number of account holder clients, with a high engagement level and a very fine level of profitability and risk. There is also a very large portfolio, a so-called "open sea", that is a pool of wide available clients, composed of not only clients won over through digital channels, but also through our own financial companies. This is a huge portfolio and we undoubtedly had to make adjustments to products, such as cards and vehicles as well. I'll give you some outstanding numbers, which I think are very positive. Firstly, this is the second consecutive quarter we record a decrease in NPL 90+ in cards. The market has carried out the first shift now, in the system as a whole. We are already in the second quarter and recording a standout reduction. This is the third consecutive quarter we are carrying out the shift from NPL 90+, with very robust nominal reductions. Ultimately, it comes to the risk-return ratio. What we do is to look

at how the whole production is carried out, our models, the expected return thru the cycle. We are increasingly implementing and carrying out the portfolio management that has worked so well for the wholesale business. We're replicating it for the retail business. This means that we've increasingly balancing our portfolios and working with all audiences. It doesn't mean that we don't work with low-income clients. We work with the low-income segment, but with the right product, the right client, the right way, and the proper rate, so that we are able, thru the cycle, to have increasingly resilient audiences. We've doubled down the bet in middle and high-income clients, as you rightly said, recording significant growth year after year. This has strengthened our positioning and leadership in these segments as we continue to believe in their importance and make huge investments in this strategy. The low-income segment is still very significant in our portfolio. Although we have de-risked, this segment had a 35% share of the portfolio and today it's close to 20%. It's still significant, but I emphasize again, it's in the right product, with proper profitability, in a resilient client. We are thus able to work with adequate audiences. What lies ahead, in my opinion, are the major drivers to work with and be able to grow these audiences with much more efficiency and quality. First of all, let's look at the ONE Itaú platform, with its capacity to deliver a full-bank experience to all clients of our organization. No matter whether this client was won over through a payroll loan facility or mortgage loan or an installment-payment plan or through a credit card. What we really want to deliver is the full-bank experience to this client. Here at the bank, only considering the number of clients we have from the "pseudo pool of available clients", there are zillions of clients who are already our bank clients, of whom we already have a record, a relationship, but to whom we are and were not able to deliver the offer of a full-bank experience due to technology constraints. That's what are and will be working on and I think this is like standing the "egg upright" so that we can accelerate growth with these audiences. We have some Uniclass clients outside the bank, I mean, "in the bank" but out of the full-bank offer, some are Personalité clients. Today we've got a lot of clients who fall into our target group, and we could make the most of it and grow with quality. And the last point is the play of cost. You are right, we've been endeavoring to become increasingly efficient, have a lean offer, as simple as possible. The ONE Itaú platform will enable us to address cost, in particular for lower-income clients. With a more reasonable CTS, or cost to serve, we can have a bigger appetite to get into this segment. A number of these clients do not fall into our credit granting criteria, as they are not considered CST. The loss, the cost of credit to operating revenues is so high that no efficiency outlook justifies working with such client. So you have a portfolio that seems to be boosted, you see revenues growing based on a book recognition dynamic. But loss will come with time. We will remain very focused on net financial margin, thru the cycle. Profitability has to be reasonable and we have the capacity to rebalance the portfolio and continue growing with great quality, and improving the business profitability as a whole. We have an efficiency agenda that will bring in new audiences, the integration upon which we'll be able to increasingly grow in segments not served today with a full bank offer. There's also what we have always known how to do and continue exploring with great emphasis and revamping segments, such as Personalité and Uniclass, where we continue growing above double digits with great quality and generating increasingly more client engagement and loyalty. In other words, these are clients who will become more engaged with the bank and are likely to have lower NPL ratios thru the cycle as well. This has been our agenda and we truly believe we still have room to grow.

[Renato Lulia]
Absolutely! Thanks, Bernardo and Milton. Let's move on to the third question, shall we? We have here Thiago Batista from UBS. Hello there Thiago! Good morning! Thanks for joining our call.

[Thiago Batista]
Hello there everyone! Hello there, Milton and Lulia!
My question will be linked to the last two ones: both in cards and low-income clients, but particularly in cards, your improvement was remarkable. I think you recorded 60 bps in the last two quarters of the EH, and the EH with proxy for default Obviously you also showed a very significant change in the mix, a strong growth in the Uniclass / Personalité segment and probably a slump in low-income clients. We don't have detailed figures concerning the cards segment. My question is: if the mix was more or less constant would you have recorded such improvement? This is one point.
The second one concerns low-income clients. As you've mentioned before, one of your competitors, the Santander's CEO has commented they have losses with low-income clients today and a solution must be found. Based on your explanation, the solution here is the Itaú ONE platform, or something along these lines. What's the role of the branches in this process? Are they significant for this client? Obviously, significant here means to be reasonable to have a branch network to serve these low-income clients. How to make this business efficient? The answer will likely be the Itaú ONE platform, but can you imagine that in the medium term this is a portfolio that may grow in the bank?

[Milton Maluhy]
Don't mention it, Thiago. It's a pleasure to see you again here. Thanks for your question. Objectively regarding your first question, if we had maintained the same mix, results would not have improved as they did. We estimate this de-risking of the portfolio has saved us from getting almost 200 NPL points overall. So you can have an idea of the size of the de-risking and the moment when it was carried out.
Ultimately, these are portfolios that may generate operating revenues. We talk a lot about this kind of top line growth. However, if you do not look at the operating revenues adjusted to the cost of credit, that is, the net financial margin, you'll end up making decisions based on inadequate appetite. There was clearly an oversupply of the product in the market, as I've already mentioned. I think that each new competitor getting into this market has done so through a credit card facility. The experience of having a card was much more difficult beforehand. Now a client can digitally open an account and get five, six, seven cards in one day alone, although they could make do with one or two. Adding to the strategy of banks not charging annuity fees, having credit cards is an option that is free to the client. What for? The client will have six, seven cards, and will use the card when and if they need to. If the client is not engaged with the organization, in the first credit cycle they will set the card aside inside a drawer and go after another product. This will be repeated until they will hold on to the last card with the entity they have their main relationship, their pay is deposited and pay their bills. There is a natural trend for client engagement to result in lower NPL. But no matter how good a credit model is, in itself it doesn't improve the client's income. Therefore we must be very careful. The product indeed reduces, relatively, the NPL ratio. This is the first point to bear in mind and we firmly believe that this de-risking strategy was key. I'll tell you this: our NPL ratio in cards, quarter-on-quarter, was down 6% in this quarter, as we record consolidated figures. So you see, our NPL ratio on the vehicle financing portfolio fell 6% in the quarter. We end up not disclosing these figures, but all this portfolio de-risking has resulted in a significant

reduction in non-performing loans. NPL ratios have been down and we've been able to gradually improve profitability. The operation with monoline / standalone cards is not positive in terms of creating value; rather, it destroys value. This is an operation carried out below the cost of capital. In some business you are able to get a positive result, but this is dilutive to ROE. In other riskier business you end up recording a negative result. So this is dilutive to both profit and ROE. However, thanks to the volume of our portfolio, we were able to absorb losses. What would our ROE be if we didn't have this mix and this composition, this portfolio of cards in the size we do? There are certainly much higher ROEs. For example, if we had a portfolio with a size more similar to the industry as a whole.
Concerning low-income clients, my opinion is that it all depends on the product channel of the client you work with. In general, this is indeed a loss-making operation. The CTS is too high for clients who today have no means or capacity. What I mean is that you can only serve this client with credit products at a very high NPL ratio. Sometimes, even with a credit facility, this client does not deliver to the bank. We believe that the branch network will indeed continue to have an important role in the bank's strategy. It's all about remote service. There are many middle/high-income clients who still like to be served by and to talk to a human being. We believe that the branch network is still important, based on the way we've revamped our model, with a hub and branches, with a proper footprint well covered geographically. We operate in places where physical branches still have a standout role to play. The "Itaú ONE" platform, which we are working on and developing, will undoubtedly provide the organization with unprecedented potential to make it to another level. Why? Because we'll be able to win over a client who otherwise we're not able to serve, who is loss-making in a physical channel. We are able to win over this client via digital means and bring them in to a digital channel. This is the only way to monetize this client, not counting the entire capacity to cross-sell I've mentioned before. We'll be able to do so by providing a full-bank offer to these clients. This is our bet. It's indeed a play of cost, a play of efficiency. Branches play a very important role, as they continue having a very significant share in our business model. We really believe and will keep believing in the phygital model. Branch network adjustments are made when necessary, as we carried out adjustments this year. We are always looking at and trying to maximize efficiency and ultimately the network will be as big as our clients want to. In other words, as long as we can bring and add more value, the network will continue to play a very important role. This interaction, especially for more structured products, will continue to play a key role. We really like our model and believe it to be very reasonable.

[Renato Lulia]
Thanks, Thiago and Milton. The fourth question comes from Rafael Frade from City, who has just popped up on the screen here. Rafael, hello there! Good morning!

[Rafael Frade]
Good morning everyone! I've got two questions here. The first one concerns the de-risking of the retail portfolio, which you've already commented in detail. I think it's really amazing that your consolidated NIN, when we look at the last 12 months, has increased in spite of all the impact of the de-risking strategy. My question is: in what stage are we in? I mean, looking ahead, this starts to seem less of an adverse event because perhaps it will lead to a more equal portfolio growth. We may even have a marginal improvement in NIN. How can we see this issue? The second question, relatively linked to the previous one, concerns the financial margin with clients. Financial margin with clients surged in the quarter. Now, when we break down into the retail and wholesale business, in fact more than half of this improvement in

margin with clients derived from activities with the market + corporations. I'd like to understand what was the driver, how does it impact the figures? Thanks.

[Milton Maluhy]
Great! Thank you Rafael. Let me begin by the second question and then I'll go back to your initial point about NIN. This second question is very simple. If you look at the financial margin, the way we disclose these figures, how we set aside the effect of the working capital. You'll see that, in the margin with clients, there is no working capital associated with the market risk, as it remains in the margin with the market. We have that 97% or 95% of capital remaining in the margin with clients, in return to capital, because this has to do with the credit risk and the operational risk associated with loan operations. We excluded R$ 2.9 billion last quarter and R$ 3 billion this quarter. Then, in consolidated figures, the margin, the return on working capital is relatively stable. Equity increased in the period, so there is a growth in equity and our rate remains positive due to the way we hedge working capital. Thus it continues to bring benefits. This is key information, and how do we escalate this to the business and is it from there that you see this difference? Like in the turn of the half-year, or quarter, there was a change in the capital regulatory issue. How do we address our business models? Like in the turn of the half-year, or the quarter, it there's a change to the capital regulatory issue, how do we address our business models? We allocate the required capital to operations in the wholesale and retail business. As there was a reduction in risk weighting factors for credit business as a whole, with Basel III in the turn, the economic capital allocated (EAC) to both wholesale and retail had somewhat decreased. What do we do in our business model? This is just the way we disclose it. We exclude this capital surplus that had increased even more, and bring it to the organization. I don't keep this surplus in the business, as the return on capital surplus remains in the organization. So, when I highlight the 2.9 and 3 on that slide, they are already contained there. Is it right? Why? Because this is the way we allocate resources to the segment business. The financial margin, the R$700 million, is in fact the core growth. The other is just a rebalance between the working capital, the capital surplus we bring into the organization. So this is only a way to represent the allocated capital distributed. I hope this is clear, because this is how we address the business model. In summary, we eliminate the whole surplus from the business and leave it in the organization. Just like that. That's why you see a delta in the quarter, from 100 million to 550 million, in this corporate line, in the margin with clients. This is the effect, this is just how working capital is redistributed among the business. Going back to your first point concerning NIN, we think that most of de-risking has already been carried out. Our renegotiated loan portfolio is stable, very well provisioned. NIN has increased, and we've been able to improve our mix of products as well. When we talk about the mix, it's not only the retail mix, but rather the retail and wholesale mix. It's the mix inside the retail segment and we've been able to improve profitability. What's more, this is where the issue of engagement, principality, other relationships, other products, the entire cross-sell, come into play. Thus, all liabilities are here. We've been able to improve our relationship with clients and enhance the range of products to serve them. This indeed has an impact. Risk-adjusted NIN has a double effect, that is, the effect of the top line and the de-risking, meaning lower cost of credit, which must help us get a slightly better NIN. On the other hand, thanks to the de-risking strategy we were able to win over better clients, lower-risk profiles but lower profitability as well. Although we are very accretive and create value, adjusted to risk, we've had slightly lower margins because we've worked with more affluent client profiles, both in the corporate and individuals segments, with a level of risk a little more reduced and thus with slightly lower contribution margins. We remain positive in relation to NIN. We may perhaps

maintain what we've been operating or maybe get a slight expansion is something that can still happen. It will greatly depend on the macro scenario and the prospects ahead.

[Renato Lulia]
Great! Thanks, Milton.
Now we're going to switch to English for our first question coming from abroad. We have with us Tito Labarta from Goldman Sachs. Hi, Tito, good morning. Thanks for joining us.

[Tito Labarta]
Good morning, Milton and Renato. Thank you for this call and for the opportunity to ask a question. In fact, two questions. Talking about capital, you posted a good increase in Tier 1 core, above your minimum, with good ROE. What do you think about potentially increasing dividends, in the context of the credit portfolio being between 6 and 9% in the guidance for this year? How do you see long-term loan portfolio growth evolving through next year, as asset quality seems to be improving and interest rates potentially falling? Is it possible to increase loan portfolio next year and will it potentially influence dividend payments in the context of capital and long-term growth next year? Thank you.

[Milton Maluhy]
Hi there Tito, it's a pleasure to see you again, thanks for the question.
I commence by stating that we are taking full advantage of interest on capital, on an ongoing basis. Therefore, we expect that this year the minimum dividend payment will be around 30%. This is the target when we take into consideration the interest on capital. Additionally, we are awaiting an operational risk-based regulation, Basel III, and should have more information in the coming weeks. I assume that this month we'll learn about the new regulations, and this way we'll be able to plan the capital required to manage the business, since the operational risk will be implemented in 2025.
We still don't know what the phase-in will be like. However, our capital generation has been improving, as you know. We want to approve the direction we are going to take and the alternatives available by the end of November at a Board meeting. We have some alternatives: we can increase dividends, buy back shares, so there is a mix of things we can do and we'll have these discussions by the end of this month, if the regulation on operational risk is published. This is our best guess right now. Taking this into consideration, our view is that we could, and should, have an increase in our dividends and/or share buybacks, depending on what the Board of Directors defines. We'll have a proposal by the end of the month. We believe that in the coming weeks we'll be releasing new information to the market. When it comes to portfolio growth, we are still planning for 2024, and subsequent to the guidance we'll release the figures for next quarter by the beginning of next year. We continue working on this issue with the same diligence as usual, analyzing the portfolios we want to have in the long term, understanding how to better manage and balance them in the long term to, consequently, be more resilient in the long term. These are the current discussions. We cannot anticipate anything because we haven't finished them. We still have work to do and as soon as we have this information we'll share it with you.

[Renato Lulia]
Thank you, Tito. Now going back to Portuguese. Milton, we already have Rossmann from BTG Pactual on the line. Hello there, Rossmann, good morning.

[Rossmann]
Good morning, Milton and Lulia.
I'd like to talk about valuation and M&A opportunities. I'd like to take advantage of Milton's view on bank valuation in the world. ROEs are all surprising positively in most geographies, but valuations are very cheap, in P/E terms, as in the past price-to-book was very low, but we didn't know what the real book was. I didn't know how the ROE was. I think Jamie Dimon himself has complained a lot about the increase in capital requirements in the U.S. Ana Botín from Santander has also spoken about unfair competition with non-banking players. I'd like to take advantage of her view. What do you see as challenges for the sector, not only here in Brazil, whether you have been talking to other CEOs around the world? I'd also like to understand whether this wouldn't be an opportunity. I think you have capital surplus, you've just mentioned it, and you still have, for example, a sub-optimal operation in Colombia. In Chile there's clearly some room to improve. I'd like to understand whether it wouldn't make sense to use some of this capital to ultimately be able to buy banks in the region, close to the book value. I think that for banks it's very challenging to pay well above the book value due to the intangible assets. I'd really appreciate to have your perspective. Thanks.

[Milton Maluhy]
Great, Rossman, it's always god to see you here. Thanks for the question.
First, I agree with your initial statement, our view is that prices are low. We don't manage our business looking at the share price in the short term. There's all the volatility, there is always the effect of the bank itself, our competition, and there is the Brazil effect on our activity. So our action ends up having multiple effects. You can have a good multiple, but then you need to look at your competitors, where it can have more or less upside. That's why we always look at the long-term TRS, which is how we deliver value via share price and dividend to our stockholders, our value creation. We think that based on the level of results we've been generating and then looking ahead, the price and multiples seem really low, not only ours, but also those of other banks outside Brazil. Anyway, this is a real market dynamic, the price action of shares.
The issue of M&A is something that we've been very aware of all the time, as you know our track record. The bank is what it is, the result of a significant that took place back in 2008, so we are always looking for opportunities.
Outside of Brazil, asymmetries are still very significant, regardless of the price of assets, whether it comes to the fiscal asymmetry, which is when we have to pay a tax, the tax difference. If we have a lower effective rate in Chile or Colombia, we'll have to bring it to Brazil and recognize it in the bank's corporate rate. And, above all, capital. When we consolidate assets in Brazil Here, we work with the Board's defined appetite level, CET1 of 11.5% and another 1.5% of AT1, so 13% of tier 1. These operations run with a capital tier much lower than that. When we bring it to Brazil, we take the Chile operation that runs at 9.5%, 9.6% of capital and we consolidate it in the bank here. We need to reserve this capital delta in Brazil, because this is the capital tier that my stockholder expects us to have and retain in the operation. When we allocate this capital with a cost of capital of 14.25% or 14 or 15%, whatever the cost of capital, it's very difficult that the profitability of this operation outside Brazil create value for the stockholder. This is the logic of value creation. Chile is running at its best profitability and when we consolidate and include all costs, the cost of hedging the capital ratio, the allocation of additional capital itself and the tax asymmetry itself, this reduces profitability, from the ITUB4 stockholder's view. So, it's positive for profit, but dilutive in ROE. We don't see great opportunities outside of Brazil that can change this trend, neither in Colombia or Chile. So our objective has been to improve, simplify and gain efficiency in Colombia, which is a sub-scale

operation. The Chile operation is running at very good levels of profitability, from the client's view. In fact, all the investment and work carried out is now paying off, finally after a few years. We remain quite comfortable with what we have, there's nothing like what we saw in Argentina, which was a case apart. In Brazil, we continue to look at the dynamics and there will always be the regulatory/competitive issue, in which business we can or have the opportunity to evolve and, obviously, if there are businesses that complement our offers. We've found some smaller businesses that complement our ecosystem. We haven't seen major opportunities and the ones that were and left the market were opportunities we visited and declined, as we understood that they were not fit, or had no added value or the price was not reasonable. Then our approach continues being this way. In other words, we are open to opportunities that create value. We have a dedicated proprietary M&A department, with a highly qualified team constantly looking, talking to the market and investment bankers, and mapping opportunities. Our view today is that opportunities lie much more in technology platforms, such as Avenues, recently approved by the Central Bank. For us, it strongly complements our investment offering. We look at Ideal, the full digital broker that also complements our investment offering. Our partnership with TOTVS. Therefore, we've looked at smaller businesses and remain active, as we'll continue to advance whenever good opportunities arise.

[Renato Lulia]
Thank you, Milton! Next question comes from Daniel Vaz. Welcome Daniel, good luck in your new home, we wish you much success. It's great to have you here on the call.

[Daniel Vaz]
Thank you, Renato. Good morning, Milton and Renato!
I think my question is also linked to capital. I know it was already mentioned in Tito's question, but I'd like to understand how you view capital today and this minor change in the origination of SMEs that we've seen in the last two quarters. What does it represent? Will this additional capital that you have in the bank today, in your view, be the driver of the increased origination we can see in loans for SMEs? If you look at the strong growth in large companies, are you carrying out any move, are you already seeing an improvement in risk perception? Or are these moves in fact adjustments to the origination that were a little lower, taking into consideration the (...). That's my first question. Then, if I can get a glimpse into the renegotiation issue, please. We saw some stability this quarter. I think about the effect, if any, of the so-called *DESENROLA* debt renegotiation project. It has drawn attention that there could be some good indicator of asset quality when we look ahead. Do you agree with this statement concerning renegotiated loans? How do you, inside the bank, see this issue? These are my two questions, thanks.

[Milton Maluhy]
Awesome, Daniel.
First, it's very important to state that today capital is not an active constraint on growth for the bank. This is the main message I'd like to leave with you. When we make a plan for using and sourcing capital over a longer term, we take into consideration our ability to increase the portfolio, according to our appetite, and to generate capital with the level of profitability that we've been able to bring into the operation. Today we have a very strong organic capital generation capacity, more than enough for our portfolio growth. I wouldn't tell you that today capital is a *de facto* constraint. Ultimately, the constraint will always be, or it is now, our appetite. How far do we want to grow, how much has the market actually improved, in which

audiences, with what products, with what deadlines, with what portfolios? What is the optimal portfolio for the bank, so that we can have less volatility through the cycle? This is how we've been working. Look at the volatility of our wholesale portfolio at a time of greater volatility. We are endeavoring to do the same with our retail banking portfolio. We prefer to have much fewer cycles of ups and downs, and a very positive NPV, with much less volatility. This is what we aim bank management-wise. This way, capital is not an active constraint. Our view is that there is capital surplus and our idea is not to retain such surplus beyond the amount we think is necessary to grow and invest. We've been able to allocate capital in a highly efficient way. I said, in the beginning, that if we had been working with the capital defined by the Board of Directors, of 11.5% of CET1, our ROE would have been 24% in Brazil. Our ROE is 22%, with a tier 1 capital of 13%. This way we are able to adequately allocate and pay interest on our capital. Our intention, however, is not to retain capital beyond what is required. This is the plan we are going to execute now in November. Our expectation is that there is room for increase in payout/share buy-back. Something will be done, without a doubt. We'll certainly go beyond what has been done, which is the optimization of interest on capital, which has brought our payout to something close to 30%. We must increase this implicit payout again via buyback or dividend and/or a combination of both alternatives. We'll give you more information in the next call. Sorry, not in the next call, but rather next month, possibly after the discussion that will take place at the Board of Directors. So I think that's the first point. The second point, regarding the renegotiated loan portfolio: the impact of the DESENROLA debt renegotiation project is still very small. We are really very engaged, the entire market has been mobilized. It's an awesome program, but its impacts are still very small, especially in this second stage. There is work to be done on client experience, eligible clients, how do clients qualify, how will auctions work? But the impacts so far have not impacted our figures. In fact, this is some very strong work and we've renegotiated what is actually required. If you look at the bank's renegotiation track record, you won't see any bumps. We've never used renegotiation to manage NPL ratios. We renegotiate with an economic vision, as it makes sense to renegotiate at the right price with the client who needs to. For those clients who actually do not have the means, we prefer to use a collection procedure and follow the process if in fact renegotiation makes no sense for either client or bank at various times. We've been well disciplined in this renegotiation management. This is our agenda. Collection is key as we're able to bring in and recover cash from our operations. We proceed with this policy, as stable renegotiation is great news. But, most importantly, I think the question worth discussing is: are these renegotiated loan portfolios well provisioned? Do they have the proper provisioning level? We carry out stress testing for this portfolio. Remember that in the renegotiated loan portfolio, a good part of loans is non-overdue. These are renegotiations that have been made, installments are being repaid and settled normally. There are, obviously, short delays and longer delays. We always look at this portfolio and carries out the stress test, we always look at the worst rollovers if the rollover were for the entire portfolio. If we continue in the current pace, how will this portfolio behave over time? These portfolios are composed of individuals and companies. Here we break them down and, again, we run the stress test. What we can guarantee you is that our provisions today, whether specific or generic, is more than enough to cover with this portfolio in a given expected cycle through a stress cycle ahead. So, these are very well protected and provisioned portfolios. Generically, a good part or a portion of our provision in excess is allocated to these portfolios. In other words, the bank is really well provisioned and we see no material effects in P&L when we look ahead due to any worsening of these portfolios. Balance sheet is very well protected so we can through this cycle. This is not our base case, this is a portfolio that has been performing well, with an adequate provisioning level, and although it's evident it has a NPL ratio above non-overdue portfolios, as can be expected.

[Renato Lulia]
Perfect, Milton. Let's move on to the next question. We have Gustavo Schroden from BBI here with us. Hello there Gustavo! Good morning, thank you for being here on our call.

[Gustavo Schroden]
Good morning Lulia, thank you. Good morning Milton, thanks for the call.
I'd like to ask two questions. The first one is more specific, Milton. It's about payroll loans. I know you've already explored the issue of retail banking, but I think this is a crucial product and the reduction you had in the INSS (social security benefit) client portfolio has drawn some attention. You've stated in your communication material that this reduction was intentional due to lower profitability. I can only imagine that this is related to the caps that have been placed. If we look at the recent track record, as the SELIC rate falls as decided by COPOM, there will be likely another drop in the INSS cap. Could you please explain your strategy? Because when we see this de-risking happening across the board, that is, all banks, each at their own pace, have reduced their appetite in riskier lines such as clean personal credit or credit cards. Payroll loans tend to be a product banks typically use as counterparty against these decreases in the retail business. I think it would be very interesting if you could explain your payroll loans strategy. Then a quick second question would be related to ROE. You've mentioned twice that if Brazil's ROE had adjusted the tier 1 common equity to 11.5%, we would be talking about a 24% ROE in Brazil. You've already said that there is this prospect of distributing more dividends, obviously according to what will happen, it depends on the regulator's decision, but there is this possibility. I wonder how the bank will do to gain efficiency, as allowance for loan losses, or ALL, tends to decrease next year. Do you think we can start looking at 2024 and dream of an ROE of 24%, 25% next year? Thanks.

[Milton Maluhy]
Thanks, Gustavo. I appreciated the "dream".
We always dream big here. This is the path we'll continue to pursue here.
Looking at ROE, clearly speaking, we continue to foresee very solid and consistent quarters. As the year turns, another quarter will come. As we reaffirmed the guidance, the guidance includes the result and ROE above 20%. It's obvious that we are reviewing these figures for next year. There are known elements and those that we use to address the whole budget issue, looking ahead. There are also unknown elements, there can always be an adverse event, a regulatory change, and we are not taking that into account. I won't anticipate, but we are working here at a profitability level that seems sustainable, looking at the 2024 time period. I can't see, obviously, as there are levers for both sides, but we can have a ballpark figure with profitability close to 20% seems reasonable and we'll have to naturally look as we are now cranking the figures to have a slightly longer term vision. To state it will be 24% or 25% is not right, as I don't think I'm in a position to give any guidance on that yet. It will depend on the budgetary exercise we are doing and market conditions, but the dream lives on. It will also depend on the opportunity, if any, to increase it, taking into consideration all the management we've carried out regarding profitability and value creation. Now remember that we're going to enter the interest rate reduction cycle and it's very important not to look at ROE apart from the cost of capital, because if interest rates actually continue to fall as we imagine, then the cost of capital will also fall, with the profitability level tending to follow. A not so big correlation exists. We show that sensitivity is much lower than the SELIC, it doesn't

follow the SELIC, but, as the cost of capital falls, naturally you move on to the price and end up being more competitive. What we look at is the delta ROE against the cost of capital, which is the creation of value, and we believe this is what we'll continue delivering, based on our best expectation, in 2024. Going back to your original question, it was the question about payroll loans. First let me make a statement. FEBRABAN has taken a stand on the cap issue. Firstly we believe that the market, the rate, whatever, is defined by competition. There is no need to place a cap, especially because the rates currently charged on average end up below these caps. The market is dynamic, there are a series of players, banks of all types, large banks, medium-sized banks, small banks that operate with payroll loans and the market is utterly competitive. The issue is that this cap was defined by considering the SELIC rate separately, not in terms of the long-term curve. What happened in the last few months is that the SELIC rate actually fell, but, depending on the scenario abroad and all the fiscal uncertainty, long interest rates here in Brazil ended up rising. When long interest rate rises, you end up losing the ability to originate new credit because rates and return are not reasonable. When you adopt this cap, you remove a group of the population from banks as they stop having access. From what FEBRABAN announced, R$2 billion of monthly output left the market. Therefore, there is R$2 billion less credit for retirees and pensioners on the cheapest credit line. You try to gain efficiency through the SELIC rate, but you remove a group so significant that ends up having access only to much more expensive credit facilities. Instead of benefiting the credit borrower, this strategy ends up harming them, as we take away a credit offer. What for? We basically have two INSS credit distribution counters. For account holders, it's a matter of efficiency, price and everything else. For non-bank correspondents, which are an extremely key channel for distributing the product in Brazil, the only way for the product to be profitable is when you make adjustments to the commissions that are paid. Each bank pays and defines its own commission. Commissions had a sharp drop, with some offices experiencing great difficulties. You end up having to consider the commission that is paid to the bank correspondent in the price, you end up cutting down on the audience you are able to provide a credit offer. We had to make important cuts and the portfolio ended up being greatly affected. 40% of our output comes from bank correspondents, 60% is from the branch network. In the past it was the other way round: 60% from bank correspondents and 40% from the network. With this shift in dynamics, we are cutting down on many audiences that don't pay off as we take into consideration all transaction costs. Cost is not necessarily falling for the borrower. In other words, ultimately you are making borrowers access more expensive credit lines and, as a result, for them the cost goes up marginally, disproportionately. This is FEBRABAN's rationale. We don't think it's the best way, we think we must look at the long-term interest rate and that reducing the cap alone, following the fall in the SELIC, is not the proper way to manage one of the lines, or the cheapest and more accessible line for retirees and pensioners. The latter is a total hit and has always been seen positively by the market. I think that we must be very careful here. I think the government is clear, this message has already been transmitted, as FEBRABAN has already positioned itself. We respect it, the decision is sovereign but the impacts are as we've presented them here.

[Renato Lulia]
Crystal clear, Milton. Thank you.
For the next question, going back to English, we have Jorge Kuri from Morgan Stanley. Hello there, Jorge, thanks for joining our call.

[Jorge Kuri]
Hello everyone. Thanks for this opportunity to join in. I'd like to go back to the credit card regulatory issue. I understand Milton's comments about how frank the discussion about the credit card industry is and the different options for negotiation. It seems like everyone is more or less informed about how the ecosystem works. However, interest rates are so high because of installment payments. It seems to me that any result that reduces rates, without changing the issue of installments, will be artificial and won't allow for progress in the business. We've noticed confusing signals from the Government. The Central Bank says it's open for negotiations, but the Minister of Finance said absolutely not. How do you think decision makers will behave? In other words, the people who will ultimately have a decisive say on the reduction of installments, their regulation, gradual phase-out or restriction. This is the first question.
And, secondly, if this is not palatable to consumers, then there will be negative consequences on consumption. You know, this is a popular government. How would the bank look if the solution was as simple as the following: 'ok, we're not going to move any of the different moving parts of the gear except the rates, and we're going to put a cap that is equivalent to 100% of the interest rate on the loan amount, more or less as it is in current law'. What does this mean for you in terms of business growth, business profitability, how many cards will need to be canceled because obviously at these rate levels, some of them are just not good for business? I really wanted to get more details, rather than an overall picture where everyone understands and we're having a nice conversation. It seems to me this is very simple: either you cut installment payments or the result for card issuers will be poor.

[Milton Maluhy]
Jorge, I'll be taking you alongside me to the next meeting with the Government, because I believe you understand something that's very difficult to explain. I think the Government understands it, as does the Central Bank, but it's a complex topic, it's not simple. This is an issue that Brazil has been working on for many years and it's very difficult to present the concept and show people the real impacts as you've just explained. Being very objective, I've nothing else to say in addition to your initial statement. We know an imbalance exists, and risks haven't been assessed correctly. We have R$127 billion in credit card portfolio, of which R$20 billion pay interest. How do you take on the risk of a portfolio worth R$127 billion when only R$20 billion pays interest?
Ultimately who pays the interest at the end of the day? The answer is the most vulnerable population who has a very high default rate, as there's an adverse choice. Therefore, you need to charge higher interest rates. In my opinion, the Government needs to understand that interest-free installments actually bear interest. The difference lies in how you communicate it. Just this. The acquirer prepays the merchant, the merchant embeds the interest in the asset and, *voilà*, there are no interest-free installments. But people believe that ultimately no interest is charged. That's why communication is the way it is, as is the narrative. People believe it because they don't understand the rationale. Who ultimately pays? The issuer assumes the risk, the acquirer advances payments and achieves advanced profitability by charging SMEs for a risk the latter ultimately assumes. In other words, Itaú, Bradesco, Santander, Nubank and all other banks. This is the risk everyone takes on. Our view is that if we don't follow the international market and create a rebalancing composition of interest-free installment payments, thus creating interest-bearing installments, then we'll face some issues. The idea is to transform this mechanism to finance clients at very competitive values, 4% per month. You can do this with interest-bearing installment payments. You also open a

pathway where you can strongly reduce the revolving rate and charge these clients very low interest rates.
Then, what is the issue we want to solve? We want to help people make the transition. Just to give you some figures, let's say we have an 8% interest rate cap on credit cards. Like we do on revolving credit, current accounts, overdrafts. If we have this 8% cap, we'll have to cut down 60 million credit cards nationwide. 60 million credit cards will need to be discarded and there could also be an impact of R$350 billion on consumption. Why? Because you take out these people from the consumer market. You'll have a very large impact on the population that was included in the financial system, and they will be excluded from the financial system. Where are they going to get financed? How will they purchase things? How will they be part of the system? This is the impact. If the Central Bank, alongside the Minister of Finance and the Minister of Planning, fails to find a solution that brings everything together, there will be a problem. And ultimately who benefits from it? Not issuers, not acquirers. Consumers will. Merchants will. This is what we advocate for. I'd like to see a very technical discussion about this. The rates being charged in advance are clear. You can access any website, of any merchant, any acquirer, and you can see the rates charged to SMEs. We then have a very dangerous narrative and this is real. For me, it's much more a political than a technical issue right now. Everyone needs to understand that we must find a solution that is good for Brazil and plan the transition. If we don't do this in 90 days, we'll be stuck with this cap approved in Congress, rates will drop just a little, and none of the issues we have today will be solved. Paying clients will still be the same and will still have public subsidy. We won't be able to increase our portfolio and finance consumption more than we do now. We'll have to remove many clients from the market due to this level of rates, as this strategy won't be sustainable in the long term. This is indeed the impact. The simple way doesn't seem to be the right way to make decisions. Therefore, making a simple decision is not the most effective way when you have a complex issue. I think the Central Bank has all the tools, the technical teams, and they'll have to find a solution that is good and sustainable for Brazil. We do not advocate, as a bank, the maintenance or preservation of our business lines. How so? Because we are simultaneously the main issuer and acquirer in the market. We are present in both businesses. There is no conflict at all. We'll be the most impacted in both sides. It's not a matter of conflict, but rather a matter of delivering to the market what is best for the market in the long term. We believe that information is available, this briefing was very clearly prepared and I think the technical staff knows that. Let's see the willingness to take on these and other discussions.

[Renato Lulia]
Thank you, Milton. Now back to Portuguese, as next question comes from Mário Pierri from Bank of America. Good morning Mário. Thanks for joining our call.

[Mário Pierri]
Good morning everyone, congrats for the results!
Good morning, Milton. Two quick questions: at the beginning of the year, you hedge your capital against exchange rate variations. That's a cost of about R$2 billion at the beginning of the year. Given the sale of the Argentina assets, should we expect this cost to be much lower next year? Can you clarify this issue, please?
Now the second question, Milton. I think it's become clear that the bank's appetite to start granting credit is increasing, due to reductions in NPL. I'd like you to talk about demand. How do you see credit demand? Do you see companies' appetite improving, better visibility with the economy, with interest rates falling? I think it would be important if you could talk a little about demand too. Thanks.

[Milton Maluhy]
Thank you Mário.
Objectively, Argentina had a negative CTA, and the cost of hedging the ratio brings a benefit, rather than damage, precisely due to the interest rate differential. What harmed us in carrying this asset was the Brazil cost, against the exchange variation in Argentina. When I hedge the capital ratio, the carry of this currency is positive against the Real. Just to give you some big figures, in the last quarter it was about R$70 million. If we exclude these two months, it would have been a positive impact. In the long term we have improved our way of hedging, using it more and more, hedging strong currencies, because the rate of other countries' currencies against the Real is very close to those of other Latin American countries. We have placed more emphasis on the Euro and the U.S. dollar, as there is a de-correlation, which helps our hedging cost and management. The second impact is the interest rate differential, which has actually been falling, which helps our hedging cost. That's why we've seen some reduction in recent months. For these purposes, the Argentina operation had a positive impact, as it brought the hedging cost to a slightly lower level because the currency carry was favorable in relation to the hedging cost. This is the explanation. Looking ahead, we see a demand increase for the portfolio. We've shown just now that the origination of large companies surged last quarter and the capital market is bouncing back. Now we see a more active market, with companies anticipating the drop in interest rates and already seeing more positive prospects, with GDP growing this year. We've seen stronger activity, already in the third quarter. GDP will soon be disclosed, and we foresee a much weaker GDP as a result of the monetary policy to control inflation. We've also seen demand increase, with origination growth. We've been able to meet demand, with a very high conversion rate, favorability, highly reasonable returns, and well-priced operations. When we notice some overpricing or hype in the market, we prefer to lose market share and actually defend our long-term convictions. Demand has increased and we've been able to significantly meet demand, whether via capital market, as figures show the effect on quarter results, or through the balance sheets of large companies. We've already noted improvement in this quarter. Our expectation is that this will continue to happen.

[Renato Lulia]
Thanks Milton! Next question comes from a different analyst from the same bank. We have Nicolas Riva here. It's good to see you again. Thanks for joining the call.

[Nicolas Riva]
Renato and Milton, thanks for taking my question. It's so good to see you again. My first question follows up the question Mario asked concerning the sale of the Argentina operation. Why selling the business now? You've sold it for US$50 million, with a major loss of R$1.2 billion in the transaction. I calculate something about 0.2 times the price-to-book on sale. I'd appreciate if you could confirm this price-to-book figure. Again, why selling the business now? Milton, I know you've made reference earlier to the fact that, outside of Brazil, it's difficult to generate ROE above your personal equity and create value for stockholders. I have a second quick question, my usual question about bonds, about Tier 2, the 29s.
I know the call decision will depend on market conditions and financing costs, but can you tell us, Milton, what you'd rather do if Tier 2s and 29s start to lose capital treatment and the call is not exercised? Would you be inclined to make the call, regardless of market conditions? Thanks.

[Milton Maluhy]
Thanks for your question Nicolas. It's easy to explain our sale of the Argentina operation. The NPV of this transaction is positive from the economic and stockholders' viewpoints. Why? Because even though we did not capture the complete book in Argentina, between the announcement and payment, there was a major devaluation in Argentina. The value was set in US dollars. The US$50 million would place the transaction at fair value in the way we had planned. A second point was that the payment was made outside of Argentina. How can I get capital out of Argentina, with all these discussions going on? The acquirer was able to issue securities abroad and obtained approval to pay abroad. Thus, we received US$50 million. It wasn't a virtual transaction, like when you try to get a better price locally.
The key reason to sell has to do with the CTA, which ended up generating this impact. The CTA had been accumulating for some time. The next CTA in the bank's balance sheet is positive, taking into consideration other operations. In the case of Argentina, due to the level of interest rates, the impact was very strong. We've been accumulating this figure for many years. If you do nothing you'll continue accumulating some negative CTAs in the long term. The operation profitability, alongside CTA, was generating a loss in our balance sheet, as it was not providing return on capital. Additionally, we must maintain the balance, maintain the bank, the maximum cap. The structure demands many maintenance costs. There are regulatory aspects and we have to consolidate the operation. When you put all of this together, even the hedging cost and the positive capital ratio, the decision to sell was made based less on how much we achieved with the operation, stand alone, which was at a fair value of US$50 million, according to our valuation method. The second question is: how to carry out a DCF in Argentina? With the cost of capital in Argentina? Which book value do banks negotiate? What level of profitability is required due to the cost of capital, so that, in a DCF, you achieve something better than the book value? This DCF was very difficult to carry out. When we carried out the DCF, the price was reasonable. On the other hand, we no longer have the CTA, which means a stop loss on the CTA, in our balance sheet, which resulted in a very positive NPV.
Now, about your second question on bonds. I know we've said this before: we'll be looking at capital efficiency, our Tier 2. How much does it cost, how much is the best benefit generated in terms of capital? What's the cost of a new one in the context of our capital? This is how we'll address each maturity and each call. If it makes economic sense for us to call, we'll do so accordingly. If not, we won't. First, let's provide clarity to the market, in a period of time sufficient to provide more information with confidence. We'll be very transparent in this issue.

[Renato Lulia]
Thank you, Milton. Next question comes from Carlos Gomez from HSBC. Hello there, Carlos. Thanks for joining our call.

[Carlos Gomez]
Hello and thank you for your patience and for trying to answer all questions in detail. Firstly, I'd like to ask about the wholesale portfolio and its NPLs. We expected to see normalization in cost of credit, which continues better than normal. Is this because NPLs will come later or should we not expect them? Secondly, could you tell us whether you think the current result from insurance operations is sustainable or should it be higher or lower in the future? Thanks.

[Milton Maluhy]
Hello Carlos. Great to see you again, thanks for your question.

I hope we won't be seeing the NPLs, as we're not looking for them. Just for information purposes, I think it's a mix of things. Firstly, we thought this year could be a little worse, in terms of cost of credit, but it has been better than we thought across the wholesale scenario. You may remember, better than most of us, that NPL in the wholesale business is realized at the very end of the process. Before you address the NPL, you carry out a restructuring, you negotiate. Some clients go bankrupt or file for Chapter 11, and end up not honoring their obligations. That's why NPL is not the best ratio to measure the health of the corporate portfolio. We must remember the middle market is included in the SME ratio. We are basically talking about large, ultra-large clients in this NPL. Therefore, we believe that the provisioning level we have in the balance sheet is very high, and that's why we have this level of coverage through NPL in the wholesale portfolio.
You discuss name by name at the credit committees and apply a rate. You assign a rating to each client. This rating defines the provisioning level we must recognize. In most cases, you'll have clients for whom we have 70% provision. Let me give you a good example: we have a 100% provisioning for Americanas, a publicly-held company, which has not yet been recorded as NPL. Therefore, if it comes to happen, we'll make a very good use of our current coverage. The portfolio is well covered. We look name by name and have both individualized and generic provisions. We allocate provisions at a level we believe is required to the highest risk clients and each client for which we need to have additional provisions. The balance sheet is well covered, as we are very confident about our provisioning level. We don't see a credit crisis, but rather specific names coming and going. So far we've been able to weather this stormy scenario. Next year, if interest rates continue this trend, the macro scenario improves slightly, and the business environment improves as well, we may not see a significant normalization. Some normalization will take place. We still believe that this level of default should increase in the coming months. We must remember that we have the necessary provisions for the current scenario. So you may see some changes in NPL but not any significant changes in the bank's results.

[Renato Lulia]
Perfect, Milton. Now we have two questions left. The next one comes from Henrique Navarro from Santander. Hello there, Henrique. Welcome to our call.

[Henrique Navarro]
Thank you for the opportunity. It's good to talk to you, Lulia and Milton.
My question is: from what I understand from the talk so far, Itaú is already starting a cycle of accelerating credit origination, this origination does not appear absolutely in the fourth quarter figures, sorry, the third quarter figures, exactly because there is still a run-off process, de-risking some portfolios, mainly in the pool of available clients. Looking ahead, where will this credit growth come from? All market participants we talk to think that it seems that today everyone is avoiding this strategy. It seems everyone is reducing its share in this pool of available clients. Among existing clients, household debt has fallen, although it's still at a high level. So where is the growth coming from? There's a lot on the shoulders of high-income earners, many banks are stating they will grow in high-income earners, we know it's a different consumer profile, the lines, the products, etc. You can't put everything on the shoulders of high-income earners, as if they were going to carry this growth forward. I'd like to have your opinion: where will this growth come from? Thanks.

[Milton Maluhy]
Excellent! Thank you, Henrique, it's always good to see you.

First, we are talking a lot about retail, individuals. We've been able to grow consistently in companies with better revenue and lower risk. De-risking was also performed in this growth process in corporate retail, with remarkable results. We worked in fact in companies with larger revenue, we didn't focus so much on the base of the pyramid, our mix is different from the market. This greatly explains our performance. We continue seeing great opportunities, the companies business still has a lot of room to grow and we'll continue pursuing it. We're already growing at a very fast pace. In this quarter, the SME portfolio soared, so both corporate retail and middle market segments start recovering. There is a lot of growth and opportunities still around. We've been able to increase the individuals segment and gain some share among our clients, which is very important. These are known client segments where we have grown. I agree with you that it's not possible to concentrate growth in the high-income client segment, because it won't. It's not just in high income, but our portfolio management has played a very important role. Our card portfolio is worth R$120 billion, two thirds of the portfolio is not composed of medium/high income, and we've been able to do profitable business. The quality of all vintages in all segments in recent quarters has been great, as we've been able to post growth. Some adjustments to the portfolio are still required. I was talking about it just now, the NPL portfolio, both for cards and vehicles, fell 5% and 6% in the quarter. Then ultimately you have some inertia significantly reducing in a very high risk portfolio. Renegotiated loan portfolio is stable, with growth in the better quality portfolio. This combination makes our growth a little lower compared to prior years. We're still able to achieve growth, with a very positive net financial margin and adequately monetizing capital, which is our aim. I go back to the discussion about ONE Itaú. In individual retail we have a large volume of clients, with zillions of clients, and we have a great mono-product relationship. The ability to cross-sell and have a full bank offer is what will make retail, in fact individuals, to significantly evolve. Still under construction, I don't want to anticipate what we haven't delivered yet. I think may changes remain here at home for us to stand the "egg upright, but I am convinced, we are convinced that when we do this will open up a great avenue of growth for our segments. We've got another Uniclass segment in the bank, as we have a fraction of Personnalité in the bank and in other businesses, in an experience or in a mono-product relationship with these clients. Much growth will come from this segment. Concerning lower-income clients, it is a play of credit, risk management and efficiency that we will continue having at the bank. Each audience will have its own logic, the more efficient it is, the greater the appetite. On the other hand, this ability to cross-sell with the audiences we already have at home will certainly be a good growth driver as we look ahead. We are very optimistic about the project. Let us see if, commencing next year, we'll be able to give you more information about the progress. This segment will grow even more. Concerning the remaining segments: opportunities abound in the corporate retail; we have some corporate business outside the market and many opportunities to grow. Likewise for the middle market segment, as we've been able to grow with quality. Growth is not a concern we have. I think opportunities abound and we'll continue delivering sustainable growth with quality, without any type of..., removing volatility from the balance sheet, which is something we seek in the long term.

[Renato Lulia]
Thank you Milton. The next question comes from Yuri Fernandes, who has waited so far. Please hold on for two more minutes, Yuri, I'll be right back with you.
A part of Carlos' question hadn't been answered. Carlos has also asked about the insurance business. Carlos asked if you see the insurance business as sustainable and what is your forecast for the near future.

[Milton Maluhy]
When it comes to insurance, we believe in its sustainability. We've posted some slowdown compared to other periods, as we were growing 50% year on year. We reduced to 20-25% year on year in our core insurance business, which is 3/4, 75% of our business has to do with banking insurance, which is the core business we believe in. This credit and all the other expansion I was talking about just now, with cross sell, the ONE Itaú platform and so on, will give us the ability to continue having sustainable growth in the insurance business. We remain very positive, as we've found the pathway to grow. There's a huge synergy with the commercial and the insurance teams.
As we've changed the way we approach clients, we are very confident that this business will continue on the right track and be sustainable in the long term. We have a very positive stance in insurance. Also, looking at the result from insurance business, you'll see we are increasing the premium we receive and reducing the cost of loss. Our combined ratio has evolved by three points, from 53 to 50%. This is a superb combined ratio. The open platform has also played a major role and we'll continue in this path. We'll have production, distribution and an open platform, with this combination playing a major role in our business.

[Renato Lulia]
Thank you, Milton.
We have the last question in the line. Thanks again Yuri for your patience in staying here with us during the entire call. Thanks, welcome to the call.

[Yuri Fernandes]
Thank you, Lulia and Milton, for your patience and for taking so many questions.
I'll only ask one question, due to the long duration of the call. It's about the digital transformation in retail. You have the legal data in your presentation and, what draws attention is the drop in the growth of number of accounts, of new digital accounts opened. I'd like to understand it. I think it was over 900,000, one million accounts. This quarter the volume was more like 700, 750,000. I'd like to understand what has happened. I think it must have something to do with the bank still being cautious, the strategy of using the pool of available clients. More than the number of accounts there in that table, we have data on the share of digital transactions by volume. We see some stagnation when we look at this share of digital transactions in loans, investments and payments. My question is more along the lines of digital transformation. Do you see it not as a point of shift, but as a somewhat circular trend? Whether the share of these digital channels will start to grow a little less, as we think about the bank as a whole? Thank you again for your patience.

[Milton Maluhy]
Don't mention it. Sorry to leave you last in line. Last but not least, thank you Yuri. Let me tell you, we'll start with the second part. No doubt we continue working hard on the digital issue, but we understand that we've reached a very high level of share. Therefore, these solutions will tend to have a much slower speed because the bulk of the share was already achieved. We remain very focused on reviewing experiences, client journeys, access to digital channels, and digitizing our clients. We think that the mix of clients will change over time and thus you'll improve the share of digital channels at the margin. We'll continue overseeing this evolution, perhaps at a slightly slower pace than in prior quarters. I think the pandemic played a very strong role in accelerating this strategy and, when the pandemic ended, basically the speed and slope of the curve changed. It's something we follow up all the time. I emphasize the relevance and importance the network has. Thiago was just asking me right now. This shows

that it's not just a matter of digital channels, but the importance of other physical channels and how clients still like them for getting credit, making investments, and having access to physical channels, talking to their manager, understanding things. This only reinforces the other side of the coin, right? If we went for a full digital bank, we'd be losing a significant part of our revenue. This is why we advocate for the phygital model. We have to look at the share of digital channels and monitor it all the time, as we do. We also have to look at the importance physical channels have. Service, whether remote or physical for this offer, delivers value for clients. This is the other side of the coin. Concerning accounts, reducing the number of accounts has to do with credit screening. This screening involves two issues: one is the credit, because, deep down, you open an account for a client you have a low capacity to provide credit, you have the CAC, you bring a client to the bank, you frustrate the expectations of this client who expects credit. But this is a client who, in the screening process, will not have access to credit but will have an unnecessary cost to the bank. So we have improved this screening device to ensure that the accounts we open on digital channels can be improved quality-wise. We're looking less at quantity, but rather at the quality of the accounts we've opened. In this sense, 900,000 is not necessarily better than 700,000. The quality mix can be much better in the 700,000 than it was in the 900,000, as we are looking much more inside this figure than at the absolute numbers. That's what we've been doing, using a credit screening. In fact, having clients whom I know I'll be able to bring, engage, have a value proposition to, deliver a product, give credit, to have a long-term relationship is a win-win for both the client and the organization. This is where the adjustments come in.

[Renato Lulia]
Thank you Milton, and that was the last question from the analysts who attended the call with us today. We received several questions via WhatsApp, and just for the sake of time, the IR team will answer them all later. With that, we wrap up our Q&A session, the second part of our earnings call. Thank you to everyone who stayed with us for almost two hours today. I'll hand over to you, Milton, so you can close our call. Thank you.

[Milton Maluhy]
Awesome, once again, it's been a pleasure and a privilege to be here with you. I think we've been very careful and transparent with the figures and with what we've been able to communicate to you. Figures will always be figures. You can ask questions and you won't leave without answers. We may not know how to answer them right away, but you won't leave without answers, this I can guarantee. We really value transparency, the way you call us out, as your questions are really important. We always do a debriefing, a post call, to understand your messages and concerns, so that we can be sure that there are no blind spots left. I really appreciate your time, your dedication to the call and I hope we are able to meet your expectations. We're so chuffed with such earnings and very confident about what lies ahead. We continue believing in our journey, be it digital transformation, be it efficiency, be it cultural transformation. We've been actually able to deliver and change our clients' value view. This is the most important. The bank has been able to grow by increasing the level of client engagement in all segments. We wrap things up here. I believe we've already talked a lot, we'll be seeing you soon at meetings with the market or perhaps the next call. Ok, everyone? Thank you and see you soon. My best regards to you all. Thank you all. Thank you very much and see you next time. A big hug to you all!