Transcription – 3Q24 Results

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

Hello! Good morning, everyone, and thank you very much for taking part in another quarterly earnings conference, this time to talk about the third quarter of 2024, which we are broadcasting, as always, from our office in Avenida Faria Lima, in São Paulo. The event will be divided into two parts: in the first part, Milton will take you through our performance and earnings for the third quarter of 2024 and then we will have a Q&A session, during which analysts and investors will be able to interact with us directly.

I would like to provide some guidance to help you make the most of our meeting today. For those viewing this through our website, there are three audio options on the screen: you can choose to listen to the entire content in Portuguese, the entire content in English, or just the original audio. For the first two options, we will have simultaneous translation. To choose your preferred option, just click on the flag at the top of your screen.

Questions can also be sent via WhatsApp. For those viewing through the website, just click on the button on the screen, or simply send a message directly to the number +55 11 96176-8561. Today's presentation will be available for download on the website screen and, as always, on our Investor Relations website.

That's it for now. I will now hand over the floor to Milton, who will begin the earnings presentation, and then I will come back to you at the end to moderate the Q&A session. Milton, the floor is yours!

Milton Maluhy Filho (CEO)

Good morning, everyone. Welcome to another earnings presentation to talk about the third quarter earnings. I will try to keep my presentation brief, so that we have more time for our Q&A chat. I will talk about earnings, ESG, digital, technology, transformation, and at the end a little more about our Guidance.

Starting with the earnings for the third quarter of 2024, we saw quarterly managerial recurring results of 10.7 billion reais, which is a very strong result, growing 6% quarter over quarter and almost 20% year over year on a comparable basis. This result leads us to a consolidated ROE of 22.7% and a ROE in Brazil of 23.8%. These are very important results.

That being said, it is always important to pay attention to capital. In this quarter, we delivered a Common Equity Tier I ratio of 13.7% with a growth of 60 basis points in the period, and we are substantially above our capital approved by the Board within the risk appetite, which is a Common Equity Tier I ratio of 11.5%. If we were to simulate what the ROE would be adjusted by the minimum capital ratio approved by the Board of Directors, we would be running at 24.6% in the consolidated ROE and, in Brazil, at 26.4%. So, this shows you the level of profitability that is most comparable in relation to the numbers that have been released. An ROE of 26.4% in Brazil is truly a very strong profitability, with significant growth.

In the loan portfolio, we grew 1.9% quarter over quarter, with a growth of almost 10% in the year. Later on, I will give more details about the portfolio and present the delinquency levels, which are within acceptable thresholds, with drops in both short- and long-term indicators.

We also have very positive news concerning the Financial Margin with Clients, which has grown 4.5% quarter over quarter and 8.2% year over year on a comparable basis. So, this is the summary that I always bring to you, and the numbers speak for themselves. I think we are succeeding in delivering a very solid performance, with good profitability and the capacity to generate capital, while at the same time investing in the bank's growth.

We added an additional column to the loan portfolio presentation this quarter, which I think is important for us to conduct the presentation in the best possible way. The individual loans segment grew 2.5% quarter over quarter, which is a very important growth. This happened throughout the quarter, which shows that the average balance for Individuals is reasonably well in line with the growth in the quarter, which is what matters for the NII and NIM, showing the bank's full revenue generation capacity.

The SME portfolio posted a quarter-over-quarter growth of 4.1%. This is slightly lower in the average balance, which shows that much of the growth occurred towards the end of the quarter. But the most important thing for this picture is to look at what happens with the portfolios of Large Corporates and Latin America.

In Large Corporates, despite a growth of only 0.7% in the period, we must remember that an asset that left the balance sheet in this quarter had a significant effect. We saw the recovery of a credit case at the end of the period, which we mentioned a lot in the last presentations, which shows that the average balance grew 5.9% in the quarter. And it is this growth that affects the bank's NIM and NII.

In the Latin America portfolio, this effect is even stronger. The portfolio grew 1.2% quarter over quarter. Excluding the effect I mentioned, it grew 8.2% in the average balance. So, we could say that when we talk about gross NIM, that is, without the risk adjustment, the main effect of this 10 basis points drop was due to the average portfolio of Latin America having grown more than the average portfolio of Large Corporates and more than the average portfolio of Individuals and SMEs. So, this is the mathematical effect of the mix on the average balance of the portfolios.

When we remove the cost of credit, we see an expansion in the risk-adjusted NIM, going from 5.7% to 6.0% in the Consolidated. When we look at Brazil's risk-adjusted NIM, which naturally does not include the Latin America effect and can be explained by the mix between Large Corporate, SMEs, and Individuals, we see a 30 basis points expansion, going from 6.2% to 6.5%. During this presentation, I will go into a little more detail about the dynamics of the cost of credit.

I would also like to present another number that is also relevant to you. The Financial Margin with Clients grew by 1.2 billion reais quarter over quarter, which represents 4.5% growth. Considering the Financial Margin with Clients ex-Argentina, which was present during seven months of 2023, we had a comparable growth of 8.2%, or 2.1 billion reais, which shows a very significant result in this line.

The Financial Margin with the Market did not show any major highlights in the period, but we can say that we had a good result considering that we started from an exceptional second quarter, which shows that the bank was still able to grow its earnings, with a dynamic of greater Financial Margin with Clients, better Cost of Credit, and lower Financial Margin with the Market. So, I understand that this trend is positive for the mix. In Brazil, we are performing well, not the same as the previous quarter, but substantially better than in 4Q23 and 1Q24. Everything remains constant in the Financial Margin with the Market, with no major changes, with the exception of the cost of capital index hedge, which has been slightly higher due to the interest rate differential.

I don't have anything major to highlight when it comes to commissions, fees, and results from insurance, but I do want to pass on some important messages. We grew 7% year over year, which is very significant, and some lines attract more attention, such as Asset Management, where we had 5.2% growth in the quarter and 16.9% growth year over year. In advisory services and brokerage, despite observing a drop in the quarter, it is important to remember that the previous quarter was exceptional, especially in Fixed Income, which posted the best result in the bank's history. So, although we had a good result in this period, it was lower than what we had in the last quarter. When we look year over year, we grew 11%, that is, we continue to hold a leading position in the various investment banking rankings, providing us with very solid earnings. This shows us that we have posted very consistent results in all lines of commissions and fees and insurance operations, and that we continue with a very positive trend.

Regarding Credit Quality, the first message is that all the indicators showed a positive evolution. So, when we look at the indicators for NPL 15-90 in Brazil, Total, and Latin America, we can see that they are all improving. And we continue with the same dynamic in NPL 90, with an improvement of more than 10 basis points in the quarter in Brazil, which is the best indicator in the series, even considering the pre-pandemic period.

We have very good news in NPL 15-90, both in Individuals and SMEs, with a drop of 20 basis points in both segments, which shows that we managed to grow and, what's more, with quality, which is reflected in this improvement in credit indicators.

NPL 90 also shows a significant drop of 20 basis points in Individuals, and 10 basis points in SMEs.

So, this picture shows how we have managed to navigate more challenging cycles with great quality. And we have managed not only to grow in terms of quality, but also to generate engagement and principality, with good results in the bank's balance sheet and good profitability. This has ultimately created value and generated capital to finance the bank's expansion.

In Cost of Credit, we see that, nominally, we had a better quarter than the previous one, having gone from 8.8 billion reais to 8.2 billion reais. But I would like to draw your attention to one point: in December 2022, we had a subsequent event involving a credit case from a retail company that led us to make a significant provision on the bank's balance sheet. At the time, I told you that we had made a provision of almost three billion reais. Part of this impacted that quarter's result, and the other part was related to additional provisions that we had and that we allocated to this case, leaving it 100% provisioned. Thus, most of it was achieved through the provisions that were made during that period. This quarter, we made an important recovery that shows our ability to reverse such provisions. In this case, we recovered 500 million reais in the result, which is part of a total recovery of around 900 million reais in the bank's balance sheet. If you look at how much we reversed in relation to the mix of what was provisioned in the past, proportionally, we went through more in the result now than when we made the provision in December 2022. So, the Cost of Credit is 500 million reais, and I think it's important to make this visible to you.

Naturally, this was a question that could have arisen if we hadn't mentioned it. Excluding this effect, the Cost of Credit over the portfolio would have been 2.8% and not 2.6%, once again demonstrating the strength of the balance sheet and our ability to reverse the provision in the same way as we originally provisioned.

When we look at the renegotiated portfolio, we can see excellent progress, with a continuous drop in the renegotiation indicator over the total portfolio, both in percentage and nominal terms, which shows that we continue to manage this portfolio excellently.

The coverage ratio fell in only one segment, related to the effect of this company, which had a significant balance of provisions on the bank's balance sheet, but which was not in overdue. Naturally, when we remove the provision balance, the coverage ratio drops. So, the coverage ratio dropped in the Large Corporates portfolio. However, if it weren't for this effect, the ratio would stand at 1,146% in Large Corporates, and at 215% in the total portfolio, which shows that this drop of 10 percentage points is related to the specific case in which we had provision, but it was not in overdue.

On this slide, you will see two topics that I think are important to provide transparency and visibility for you, as we always seek to anticipate the news. Much has been said about the new CMN resolution 4966, which is the implementation of IFRS 9 for banks, and MP 1261, which is the Provisional Presidential Decree related to DTAs. So, I think it's important to highlight two very relevant messages. The first is that this change will not have any impact on us, neither on the capital ratio, nor on equity, nor on the bank's cost of credit. We will make this transition as smooth as possible. First, because we have been working with the expected loss model since 2010. Second, because we have had this public consultation in 2018, so we have had enough time to work and adjust our processes since then. Thirdly, because the bank's management model has always included the model for making provisions for expected losses on securities and other financial assets. So, this is not something new in how we manage the bank's balance sheet.

The message to you is that this migration will not have any impact on the bank. It will not affect the cost of credit, the capital ratio, or the bank's equity. That's the first bit of good news.

The second bit of good news concerns MP 1261, which is the provisional measure that allows the amortization of the allowance for loan losses to no longer take place in three years, as was the case with the original law, but rather in seven or ten years. Therefore, with the current deadlines, we will be able to absorb all of this tax credit expense over time, amortizing it without any impact on the capital ratio. So, this news is also related to CMN Resolution 4966.

Let's talk about non-interest expenses. We saw an accumulated growth of 6.1% and a quarterly growth of 5.8%. The main effect here is the collective wage raise agreement. This is where the biggest impact on this line comes from.

When we look at the accumulated efficiency ratio over nine months, we are running at 37.5% in Brazil and at 39.1% in the consolidated, with a very positive trend and very solid indicators. The most important thing here is something I always talk about: when we presented the 2024 Guidance at the beginning of the year, I indicated that we would grow the bank's core costs below inflation and that has been the case. The bank's core costs have grown 4.0% in this period, compared to 12-month inflation, measured by the IPCA, of 4.4%. It's important to bear in mind that bank inflation is higher than the IPCA. However, we do not give up on making the necessary investments to expand the bank, strengthen our different segments, invest in technology, modernize our platforms, or improve our value proposition and the delivery of value to our clients.

So, when we look at investments, the variation was 1.8 billion reais, with core costs growing 1.1 billion reais in the period. That is to say, the big "offender" of non-interest expenses are the investments we have been making, but it is precisely these investments that have allowed the bank to deliver this value and the profitability we have been achieving, increasing the top-line, improving our clients' experience, and expanding the organization. These are conscious decisions focused on the future and the bank's next 100 years.

Allow me to give you an example of what these investments are. We have just talked about investments in technology, platform modernization, and artificial intelligence, but let's give an example of what value is being delivered by all that is already being done.

We have some very relevant messages here. All the modernization we did on the platform has brought benefits. From 2018 to 2024, we reduced high-impact incidents by 99%. That is to say, it brought quality to the client's experience. It also brought speed: today, we can implement solutions 15 times faster than we could in 2018.

This shows that we can not only solve clients demands much faster, but also generate value much more efficiently, with a much lower cost per transaction. So, you can see that our cost on transactions have dropped by 55%. This is all combined with a powerful agenda of artificial intelligence, machine learning and models. We have over 430 data scientists, over 360 initiatives using generative AI, over 60 machine learning engineers, 450 skilled professionals working with generative AI, and over 1,000 AI models being used in the organization.

This means that the bank is moving from the era of transformation and modernization that we have talked about so much, to the era of value delivery: hyper-personalization, value delivery at the client level, improved user experience, much greater speed, and a far greater capacity to react to clients' demands and needs.

I would like to give you an example of a project that we have talked about a lot here. In all previous calls, we have been questioned about it, so we wanted to provide a clearer view of this initiative. We are transitioning from seven apps, which had completely different login methods, to two apps, the Super App and Íon, with a single login method. If we had tried to do this without having gone through all the modernization, with centralized data management and everything running in the cloud, it would not have been possible to deliver value at this speed.

The most important thing here is that there will be 15 million clients who now have a single-product experience with Itaú Unibanco and who will have a full-banking experience going forward. That is, while they did not have a full-banking experience before, now they will.

To bring some more concrete data, by the end of October we had already migrated 2 million clients, exceeding the original plan. We expect to migrate 5 million clients by the end of the year. This is not a goal, it is an objective, because we will always put our clients' experiences first. If there is any risk that the transition will not be done well or that the experience will not be good for the client, we will slow down the pace so that we can do it with high quality.

But the fact is that we have been managing to achieve both things, speed and quality, based on everything I mentioned earlier. We expect to complete this migration next year and reach the transition for 15 million clients.

In practice, this means that in addition to having a full-banking offer, we are able to improve all our clients' journeys. The login journey time dropped by 54%, and the PIX journey improved the transaction time by 16%. We are managing to do this with a unified, consolidated methodology and a unified design language within the bank so that the client experience, in terms of its look and feel, remains exactly the same for all of the organization's businesses.

In this way, we have managed to deliver 33 new products this year alone, developed with the speed I mentioned earlier. This is always part of a journey, always with a view to solving a client's problem. This places us at another speed and another capacity to compete.

Talking about capital, the news is super positive. We went from a Common Equity Tier 1 of 13.1%, and grew with results in 50 basis points, already adjusted for the dividends, reaching 13.7%. This is a very important accumulation of capital. I have no doubt that the first question will be about dividends. We will talk about that in a moment, but this shows our ability to create value for shareholders. Naturally, I have talked a lot about our clients and the business, but in the end it all translates into the capital ratio of the organization. So, this is super positive news for capital too.

For us, ESG has three pillars. We have the pillars of Sustainable Finance, Diversity and Development, and Climate Transition. Let's focus here on Sustainable Finance.

You may remember that at the end of 2019, we made a public commitment to reach 400 billion reais in structuring capital markets operations and individual loans in sectors with a positive impact on the economy and society. The good news is that we met that goal a year and a half early. The goal was to end 2025 with 400 billion reais and we surpassed that in June this year. So, the message I wanted to bring is that, as a result of this, we have set ourselves a new goal that is in line with what we believe can actually generate an impact on society, the country, and the economy.

We are now proposing not only to make the 400 billion already achieved, but to expand this goal to reach 1 trillion reais by the end of 2030. Therefore, in a decade, we aim to be able to structure and develop operations that will sum 1 trillion reais in total in the various sectors and result in activities with a positive impact on society and the economy. We are very excited about this new challenge and are already working hard to make it happen.

Finally, I will talk about the consolidated Guidance that was released at the beginning of the year, which also provides a view on a comparable basis, which excludes the effect of the sale of Itaú Argentina that impacted seven months of 2023. When we look at the current Guidance, we are maintaining all expectations, except for total credit portfolio growth.

I would like to give you some more details about this change. You may recall that, after the Guidance was released and after the first quarter results, there were many doubts as to whether we would be able to achieve the Guidance for growth in the credit portfolio. Some analysts thought that we could fall below the Guidance lower range and, in that first quarter earnings presentation, I reinforced to you that we would indeed deliver that credit portfolio growth, as the biggest hurdle to that was the de-risking process of the high-risk portfolio that we were conducting.

However, we expected to finish this process in the third quarter, as indeed it happened. So, when we look at the current scenario, we can see growth in the credit portfolio with a Guidance between 9.5% and 12.5%. I would like to make an additional comment on this. If we look at the original 2024 Guidance and exclude these changes from the FX rate variations, we would probably reach the end of the year with a credit portfolio growth closer to the Guidance upper range.

That is what we were monitoring based on the growth rate that I mentioned to you just now. What is new is that the Brazilian Real is not weaking against the US dollar alone, but also against several currencies such as the Chilean peso, the Colombian peso, and others. There are several other currencies that have an impact on the loan portfolio, both a positive and negative one. So, when we only look at this implicit FX rate effect on the various currencies, we see the need to adjust the Guidance to a range of between 9.5% and 12.5%, which means that what was previously the top of the range is now the bottom of the Guidance.

The positive news is that, very importantly, we have been able to secure a good-quality loan portfolio and generate value, at the right price, with adequate profitability, generating capital for the organization, with the correct mix, and at the same time expanding our capital base. Therefore, we made this adjustment to the Guidance as a result of this specific FX rate volatility event.

With that, I finish the earnings presentation with the message that we had a very strong, solid, positive quarter with many opportunities. As usual, we have a lot of work ahead of us. Now I will join Renato so we can start our Q&A session to answer your questions.

I would like to thank you once again for your time and attention. We will be back soon.

[Renato Lulia]

Milton, thank you for this thorough presentation, which has brought such important messages, in addition to our earnings, about technology, regulatory change and the ESG strategy as well.

We are now starting our Q&A session of today's meeting. Please, remember that, as usual, this session will be bilingual, that is, Milton will answer the questions in the language they are asked, either Portuguese or English. If you need some kind of translation support, you have the option of choosing all content in either Portuguese or English. As usual, you can also send questions via WhatsApp, and just remember the number is (11) 96176-8561.

Well, that's it. Let's start, Milton, shall we? Let's get this Q&A session started.

We are ready for the very first question. We have Eric Ito from Bradesco BBI here with us. Eric, welcome. Thank you. The first question at our today's call is yours.

[Eric Ito]

Thank you. Good morning, Milton and Renato. Thank you for this opportunity. Congratulations on the earnings.

Milton, I think you've just nailed it. My first question is about capital and dividends. The bank is running at a CET1 of 13.7%, well above your internal minimum of 12 or 12.5% for dividends.

As results remain robust, I think there is still an increment to come in the fourth quarter. As you have commented, there will be no impact from Resolution No. 4,966 or Provisional Measure No.1,261 on your ratio for next year. Could you please update us here, so we can understand it a bit more?

Can we expect an extraordinary dividend to take your CET1 close to this internal level of 12.5% in the last quarter, or is there any other capital need that calls for a surplus in order to maintain the level a little higher? Thank you.

[Milton Maluhy]

Thank you for the words. It is good to see you here, Eric. Well, in terms of dividend capital, at first I want to underline a key point here, as we are talking about capital.

Firstly, over the last few months we consummated the sale of our equity interest in XP. Today we no longer have any shares. We had previously announced to the market we still had some 1.54% interest left in class B shares.

In the meantime, we converted it into Class A shares and sold 100% of them on the market. I think this was something important to share with you all. Specifically, I think the news is positive for capital and for dividends.

We must underscore our capacity achieved to grow the bank with quality, creating value and generating capital. This capital has been more than enough to finance the expansion of the bank's portfolios, including credit and all other activities. Therefore, what do we have today compared to a year ago when we recorded the previous extraordinary dividend? We have a larger capital base than last year. We have less regulatory uncertainties compared to that time.

Which were these uncertainties? Operational risk, Basel III. We are now entering the phasing stage, so for us it is about 25 basis points per year for four years. We have an increase in terms of Basel weighting and credit risk. We will also record a marginal increase, close to 25 basis points, both between 49 and 50 basis points of capital consumption.

Concerning Resolution No. 4,966, which was a point of attention, and DTAs, we can say there is no impact on the capital ratio, as I mentioned some time ago. The FRTB, or Fundamental Review of Trading Book, should not have any impact on capital either. The other resolution, rule, public consultation, is the solo basis. With sub-conglomerates, we understand we can have good results, without impacting capital either.

The shares mentioned earlier, which could generate a certain change in the bank's assets, are no longer in the bank's assets. Therefore, we have less uncertainties and a larger capital base. Based on our policy, our practices and disclosures, my expectation is that we should have a capital ratio, a dividend in capital ratio distributed higher than last year's extraordinary dividend. It is key where we going to calibrate the CET1, as it is important to have a well-capitalized bank. Remember that the board's appetite is 11.5, but it is an appetite for a minimum capital ratio, that is, the board does not determine what the organization's capital ratio should be, but rather the minimum ratio.

Of course, when you work with the minimum ratio, you want to have the buffer as you can make do without uncertainties and volatility, but rather with business decision-making, the ability to grow, invest, and allocate capital. As we have managed to allocate capital properly and over the cycles, we are quite comfortable with the capital level. We understand that it is not in our interest to retain capital beyond the volume required. Therefore, the best information I can give you is that this year's extraordinary dividend would nominally be higher than that of last year, if it were the same value in capital ratio, as we then distributed 0.9 of capital ratio.

I expect that we are able to distribute more capital ratio and, as a result, a higher nominal amount. We should close this figure early in the year, when we have greater clarity on projections and the scenario. I will be here at our next earnings call to address our guidance, fourth-quarter earnings, and disclose the extraordinary dividend. I anticipate that you can expect a dividend higher than that disclosed, declared and paid last year.

[Renato Lulia]

Thank you, Milton.

There is a question that frequently pops up in the market concerning our AT1 call, whether it has any impact on our decision to pay dividends or not.

[Milton Maluhy]

Perfect. This is a very good question. The answer is no.

There is no impact whatsoever on the bank's dividend distribution policy. We were working with an AT1 close to 1.5 and, given the bank's CET1 level, we reached 13.7 this quarter, evidencing our very strong core equity, which means that we can indeed work with an AT1 lower than 1.5, which is the regulatory maximum. We will always look at the cost of these debts from an economic viewpoint. We have been carrying out a major liability management of these debts, we exercised the AT1 call. This piece of information was released to you yesterday.

Of this AT1 of R$1.250 billion, we were able to issue approximately R$3.8 billion worth of subordinated bills, perpetual financial bills, locally at very competitive prices throughout September and October. This evidences our active management of the AT1. All decisions regarding dividend payments will be exclusively restricted to our CET1 base, which is well above our buffer, including the limits approved by the Board.

Even if AT1 drops to a little below 1.5, or remains at 1.40 or 1.30, this will not impact our dividend distribution policy.

[Renato Lulia]

Thank you, Milton. We will link it to the next question.

We have here Daniel Vaz from Safra with us. Daniel, good morning. Thank you for joining the call.

[Daniel Vaz]

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

Thank you for the opportunity to pose my question, which will focus on the portfolio. You have been delivering good growth.

That said, the spread before the cost of risk is a bit lower from last year. That's not necessarily bad, as the risk-adjusted spread has been running well. Can you please comment on the lines on which the bank has focused the growth? We see one of your competitors directing much effort towards the high income segment, a personal loan with collateral and investment, the government severance pay fund (FGTS). Can you please also comment on the impact of the National Support Program for Micro and Small Businesses (Pronampe) program on the SME portfolio?

What are your lines with the best return that continue growing at this strong pace, where the bank has directed its efforts? Thank you.

[Milton Maluhy]

Thank you, Daniel. This is a good question that we can use to clarify some points.

All our management is based on risk-adjusted NIM. It has been this way throughout these years. Generating higher NIMs and growing significantly in the short term gives you a very significant gross NIM.

Depending on where you grow in the mix, you focus more on individuals, clean products. But in the medium term the cost of credit matters and you start to have a risk-adjusted line with much lower levels. If you look at our historical series, you will see that we have consistently expanded our risk-adjusted line, showing a dynamic of growth with quality in all segments of the bank. It is clear that, as we are a universal bank with a very large portfolio in all segments, a lot depends on where the growth was most based in that quarter.

Although we can create value in all segments, if we grew much more in the wholesale business or in Latin America segment, it would naturally affect the result of gross NIM and the risk-adjusted. It was key to bring this viewpoint of the average balance, as ultimately it is this average balance that generates revenue and impacts the bank's NIM. Specifically in this quarter, despite the wholesale business portfolio having fallen or grown little, having grown only 0.7% on the end, the average balance was above 5%.

The Latin America portfolio recorded an average balance growth of 8.2%, compared to a portfolio that grew 1.2% in the quarter. Looking at the individuals portfolio, which grew R$2.5 and the average balance of R$2.3 and the very small, small and middle-market portfolio, which grew nearly by R$4.1, we had an average balance of R$3.3. This shows, on the margin, that it is the average balance that generated this impact on the NIM.

Both on the gross and risk-adjusted NIM. The gross NIM remained stable for Brazil, showing that we were able to grow with quality. I think there are some important messages here.

Firstly, about all the de-risking we have carried out in the portfolio over the last few years. This is a never-ending process, as the de-risking is an integral part of the activity of risk reduction. We were able to significantly de-risk the portfolio that we understood was not resilient, in longer cycles, portfolio management and complete this process in this third quarter.

Therefore, what you see here is all the remaining inertial part that has never stopped growing. Particularly in the middle- and high-income segments, where we have been growing at double digits in all segments. I think that the first message is: we have never stopped growing, we continue to grow with quality, with resilient clients, in longer cycles, our portfolio management works in both the wholesale and retail business segments.

We have been growing in the very small, small and middle-market business segment with quality, good profitability and good returns. The corporate segment portfolio is more volatile, and in this quarter we had the effect of the write-off of a retailer at the end of the quarter. Meanwhile, as a whole, this year we have been growing the portfolio above double digits in this segment. Why? Because we saw an opportunity to create quality assets, with reasonable returns, looking at longer cycles, and a very active capital market.

The buffer for the corporate segment is the capital market. When you have a very active capital market, we will probably see smaller loan portfolios in the corporate segment. If it is more efficient and better for our clients to raise loans through the capital market, we will direct them towards it. We have a significant share of origination and distribution greater than our fair share of credit in this segment. This shows the importance of our ability to develop, structure and distribute operations for the capital market.

Looking forward, I see that portfolios will continue to grow. We should see growth for some portfolios that are ultimately starting to emerge now, the ones where we did the strongest de-risking, such as credit cards. We also see the personal loan portfolio growing with quality.

The very small, small and middle-sized segment continues to grow at a very reasonable pace. There is no portfolio that will grow poorly. We see opportunities in every segment.

But I wanted to stress a point here. The issue of return and allocated capital is kind of a mantra for our bank. There is no way for us to grow our portfolio without having the right price and proper return.

When we perceive a competitive scenario in which price and return are not necessarily the main drivers, we take great care to choose operations and make credit decisions. I again emphasize that growing a portfolio without doing it at the right price and return on capital is always easier. We are not going to give up on growing with quality and good profitability, and I think NIM, as well as our returns on capital, shows how we have been able to do so.

This is a mantra for us and we will not give up, under any circumstances, on achieving quality and profitable growth. It is not a positive spread, but rather a return on allocated capital that remunerates the cost of capital from the client viewpoint.

[Renato Lulia]

Awesome!

That's so important. Next question is from Renato Meloni from Autonomous. Renato, good morning.

Thank you. Now it's your turn here at our call.

[Renato Meloni]

Good morning, everyone.

Congratulations on the earnings. Thank you for the opportunity for questions. I wanted to go back to the issue of guidance.

You have mentioned during the call about the influence of the exchange rate, and I wanted to understand whether it was simply the exchange rate or potentially more risk appetite. Could you please address this, together with the maintenance of the Financial Margin Growth guidance? I wonder whether this is also a matter of the exchange rate or it implies an expected NIM compression. Thank you.

[Milton Maluhy]

Awesome! Thank you, Renato. Thank you for your words.

It’s good to see you here at our call. Firstly, this question is so important because of some reasons, as follows: if it weren't for the exchange rate, we would probably be very close to the ceiling of the guidance for portfolio growth. When we prepared the guidance early in the year, in first quarter, we were still undergoing the very intense process of reducing risks in the individuals portfolio, so we had a portfolio that was not growing and had the feeling that, mathematically, we would not be able to meet even the minimum guidance at the beginning of the year.

I reinforced to you that we would indeed meet the guidance, as there was a very significant portfolio growing, which was, “hidden” by this active reduction we had been carrying out at the portfolio. At the end of the third quarter, we can clearly see that the individuals portfolio grew 2.5% in the quarter, while the very small, small and middle-market companies grew 4.1% in the quarter. It's not that we have changed our appetite, but rather that we have been working on our appetite. It is important to emphasize that the risk appetite is dynamic. In other words, it’s not that it does not change, but it changes every day.

We obviously look at our models, historical losses, but more important than that are the prospective views of the scenario. Scenarios are volatile, especially due to everything we have been experiencing in terms of global and local circumstances. We are always looking and monitoring scenarios.

It is more important than the risk appetite and the timeliness with which we make credit decisions, whether to grant or to change a policy, always taking care of the cycles and looking forward at longer cycles. I emphasize that we don't look at growth in the short term, which will generate a certain margin, as the margin usually comes at the beginning, based on the dynamics of the P&L. We know that the cost of credit comes later, and just look what happened in previous cycles.

Our vision concerns growth and, more specifically, sustainable growth with quality. In other words, growth that is resilient, despite more adverse cycles. I think this is the first significant message.

To get to your point, the role played by the exchange rate, in all the lines that are in the guidance, is much greater for the portfolio than the margin. Since foreign currency portfolios typically have a lower margin than the local currency ones, it is natural that the weight is equivalent when we compare them. Looking at the margin, the weight of the exchange rate is lower.

That happens in lines where I have proportionally much greater results. The bulk of the exchange rate effect occurred at the end of the cycle, which shows that, as this guidance is for a high-end portfolio, not an average portfolio, you have this mechanical effect of the depreciation of the Brazilian real.

So, if not for the exchange rate, we would be very close to the ceiling, the guidance. With the depreciation of the Brazilian real against other currencies, we felt the need to open this new range. When you look at the range, it has the same size compared to the previous one, with only a few months left.

Ultimately, the reason for this result is that the exchange rate is a major variable and can affect the portfolio on the end. When we run this same exchange rate scenario for the other lines, although for our P&L a further depreciation would generate a positive impact on the last line, it turns out to be immaterial or not significant in the distribution of lines to make us need to change the ranges already defined. In other words, these already defined ranges are capable of absorbing any depreciation effect. We have been working above the midpoint, for most of them, which naturally leads these lines to be closer to the ceiling than to the midpoint.

In those lines that are positive, being above the midpoint, above all, is enough.

[Renato Lulia]

Awesome! Thank you, Milton.

Next question is from Yuri Fernandes from JP Morgan, already here with us. Good morning, Yuri. Thank you for joining the call.

[Yuri Fernandes]

Good morning, Lulia and Milton. Can you please comment on the IFRS? Congratulations on the slide, I think it was very clear and shows the quality of the bank, as it already gives this data. I understand that it is neutral for you and that is quite clear, Milton, but is this neutral for the system as well? Again, could you please comment on that?

The point I wanted to explore here concerns Itaú's competitive edge. It may be neutral for you but not for some of your peers and, as you already have this better capital position, perhaps by 2025 your peers will have to focus more on profitability, to grow with a bit more rationality. My question is also, whether this scenario would not be good for Itaú. Ultimately, I want your opinion more focused on the industry rather than on Itaú itself.

[Milton Maluhy]

Excellent! I'll be very careful because, obviously, we always avoid talking about the market, as each bank has its own model and policy. Banks have released their earnings and talked more about them. I think there were questions about it in the Q&A. I think every bank will state its position over time.

I see some points of attention here. Firstly, the expected loss is something we have been working on for many years, more specifically since 2010. There is always a cost to work with expected loss, especially if the alternative is to work with incurred loss, ultimately, the loss materialized.

We have always thought that, in terms of risk sustainability and decision-making, the expected loss gives you much more security when we make decisions and have a long-term vision than we have when we work with incurred loss. I think it was our decision to make. We have ultimately been communicating it for ten, 14 years.

There is a management cost, and we understand that this brings benefits in terms of capital allocation and profitability. I also think that the numbers speak for themselves. The second aspect is also very significant. We have worked with corporate clients with expected loss for many years now. We have always sought to have a proper level of provision regardless of the result.

Our provisioning management is not carried out from the result to the provision, but is rather based the other way round, from the provision to the result. We look at the cases, revisit all the credits every day and the first decision to be made is to recognize a provision regardless of the results for the quarter. Why? Because ours is an active and proactive management that shows to the market the best information available and a balance sheet with no surprises.

We have always tried to avoid surprises and unpredictability element in the event. Predictability is a major topic for us when we recognize provisions in the balance sheet. I think the Americanas case is a good example.

From the Retailer viewpoint, we address Americanas here because as the information is public, everyone knows that this is the credit. We recognized the provision and disclosed it and then, when we recovered it, we reversed it. Could you have beefed it up a bit here and there? We could.

But why did we ultimately reverse the R$500 million to income? Because our balance sheet was properly provisioned, regardless of other specific cases. If you work with a proper level of provision, it will be natural that when you have a reversal it will go through the income. I think these figures are public too. Anyway, each bank had an exposure and the recovery level is relatively similar among all banks.

Each bank has its own model and chooses how to manage it. This is our management way. Concerning Resolution No. 4,966, we thought it was important to provide visibility, because it is a mantra here to have a strong, well-provisioned balance sheet, regardless of the level of capital, value creation and capital allocation.

When people ask me what is our organization's differential, I answer that's what set us apart: we work with capital allocation and value creation; it is not a positive spread. As in all segments of the organization, no decision is made without looking at the capital first, either regarding an investment, credit granted or operation.

In our view, it is not the most efficient or proper way to manage risks just to look at the impact, whether on profit or equity, and not look at the return on allocated capital. This is what we have done. Regardless of the capital level, the return on capital must be so significant in management as if we were operating with a capital ratio below the risk appetite level.

We are running at 13.7 and we do not give up on making decisions based on this return on capital. It's not because we have excess capital that we will destroy the value in operations.

I believe this is a key message. Rationality is always good for everyone. Being rational has to do with looking at a system that grows orderly, with the right allocation of capital and proper returns.

The risk you run when you fail to do that is to bring operations into the balance sheet that are not accretive to ROE, do not create value for stockholders and consequently for the organization, and do not allow you to expand your capital ratio, thus compromising your future ability to grow. It's as simple as that. This is the mechanics and the way we drive here.

That is why I think every bank should disclose its own strategy. It is clearly that rationality, which was the word you used, is good for everyone. We have always advocated for a rational market.

The right allocation of capital and competition is healthy. In short, having several competitors, all very competent and capable of developing their business models, is good. Rationality from the point of view of capital allocation will be good for everyone. Having a healthy system growing with quality, creating value for everyone, whether clients or stockholders, is good.

[Renato Lulia]

Perfect, without a doubt.

Thank you, Milton. Next question. We have here with us Thiago Batista from UBS. Thiago, good morning. Thank you for joining the call.

[Thiago Batista]

Good morning, everyone. Thank you for joining the call. Thank you, Milton and Renato. Congratulations on the earnings and the slide on Resolution No. 4,966.

It will be useful for us. My question concerns credit cards. The EH risk rating for the card business reached 6.5, a drop of 50 bps, quarter-on-quarter.

I think that, since the outbreak of the COVID pandemic, this is very close to the low since 2015, at least. My question is: have you already made the adjustment here to the change in mix that the government was making? Do you think it is time to take more risks in the months ahead? Or rather not, if this new normal has an EH risk rating at this level? For a quick follow-up, could you please also elaborate on the impact of Selic on the bank's dynamics before 2025, which in my opinion has a potential change in level.

[Milton Maluhy]

Thiago, thank you. So good to see you, thanks for your words. The credit card portfolio was where we made the biggest risk adjustment. We talked a lot about this market, where we capture clients in the open sea, where you have little record and experience. It is also a market oversupplied with cards and credit, leading households to spend a significant part of their income in servicing debts, especially for the card product. Our decision, back then and consciously, was to make a significant reduction.

Looking at the national financial system, we can already see the default on the end, which is showing signs of worsening. We have been reducing our NPL above 90 days for six consecutive quarters. We started to reduce this ratio before the market did, and as we continued to improve the market got worse on the end.

Which shows, in practice, that the whole de-risking procedure was properly conducted for clients and operations that do not create value. I will say it again: the issue of value creation is a mantra for us. It means that the spread is positive, but the ROE, the RAROC of that operation is below the cost of capital in clients where the capacity to extract value and generate other business is reduced, especially in monoliner clients, where you have the card as the only relationship product.

We have here a series of significant pieces of information. Firstly, we understand that the distinguished features of the cards are crucial for client relationships, frequency and engagement. Our revenue grew 20% year-on-year in all those segments where we have a relationship that transcends the product, a figure much higher than the market, which shows a proper value proposition, a high level of engagement and loyalty of our clients and its growing base.

The growth of the base has also been very important. The second piece of information concerns the appetite, which I think is key. We are currently going through the largest migration of apps in the bank's history, as we are migrating approximately 15 million clients, who were primarily using card apps or iti, to the SuperApp.

We have already migrated two million clients to the new platform, and should reach five million by the end of the year. Over the next year, we will reach this 15 million figure. This is a major change. Why? Firstly, because we start to have a relationship with this client that goes beyond the credit card product.

We now have an offer for this full-bank client. We now have the ability to offer this client many other products in addition to credit cards. All of these products are within a super app.

In a very simple way, we will use proper UX and major hyper-personalization, which means we will understand the needs of each client, whether they are a client making more transactions with the card who will experience the SuperApp, whether they are a more credit-taking client and need other products, whether they are an investing client. Thanks to market data and information, we can understand and serve our clients in a more holistic way. This is a key change.

The second point it that we, with this capacity now to “produce”, and I addressed this point on that slide a little while ago, we have been able to deliver new products and solutions. Today the SuperApp has the best of the Monoliner card app. The best we had in the Mono App is now inside the SuperApp, and those clients who had the Mono App before now have access to all other products. This is such an extraordinary change in the way we deliver value to our clients.

When we talk about Pix credit within the journey, all these transactions are made under the scope of the distinguished features of the credit cards. It becomes a new transaction for many clients. Our expectation, after these migrations are concluded, is to begin to expand the level of engagement and relationship with these clients, to achieve principality.

This is the name of the game and this is the point we are focusing on. Credit cards will start to be seen less as a product. It will be seen just like the acquiring business, as we look at it less than a product but rather as part of a solution of a complete offer for clients. Although we disclose the figures for the card portfolio, it is more important to look at the segment's results, where cards play a relevant role. We will thus look at a thorough relationship that goes far beyond credit cards.

We are comfortable, as our client base for credit cards has increased. We continue to believe in the growth of this portfolio, and it will probably grow even more next year. The adjustment to the portfolio has been carried out over the years and we have just completed it now in 2024.

That was the first issue. The next question concerns Selic. Selic gives you a general view. I underscore this fact. High interest rates are not good for banks in the medium and long terms.

The lower the interest rates, the more the economy grows, the more capital markets grow, the less delinquency we have. In view of this volatility, what are the lines most impacted by Selic? The bank's working capital. We hedge working capital over longer periods. When the Selic rate falls, we do not capture the immediate value, and when it rises, this is also captured over time. That's it, that is the bank's working capital.

This involves the organization's whole liability management. I think that the bank's strength, in terms of investments, liability management and with higher interest rates, will naturally migrate, often, to treasury products, with many clients leaving the multimarket and variable income to the fixed-income products. Whether these are third-party products that we distribute or our own products, they end up generating a more positive ROA. The same happens with the demand deposit itself and all the effects on the floating.

These are the two great impacts. The negative side of high interest rates is delinquency, or NPL. We know that for the corporate segment, in general, companies are indexed to the CDI, to their debts, or CDI+, a small percentage of the CDI nowadays, or, depending on the client, to a fixed rate.

High interest rates discourage the growth of some portfolios and reduce the spreads of portfolios with rates with a cap. This is true for mortgage loans, as it generates a negative effect. Also for payroll loans for INSS beneficiaries, as it has an interest cap.

We saw this reduction in the cap when the interest rate dropped. As interest rates started to rise, there was no change in the cap. Therefore, we are no longer granting INSS loans for some clients.

Because we are close to the interest rate cap. Overdraft and revolving credit lines end up generating this effect. We have to look at these effects on working capital, on liabilities and on

NPL, particularly for the corporate segment. Higher interest rates end up putting more pressure on NPL.

I believe the impact comes in many forms. We have to look closely at the intensity of the effect and the duration of the cycle.

[Renato Lulia]

Thank you, Milton.

For the next question we will switch to English, since we have Tito Labarta from Goldman Sachs with us.

Hello, Tito, welcome to the call.

[Tito Labarta]

Hello, Renato and Milton. Thanks for the call and for taking my question.

I just wanted to get your take on the credit cycle, as loans seems to be growing and also the overall asset quality shows improvements, and provisioning is coming down a bit. Everything seems healthy, but when we think about the macro economy, the inflation still above the threshold, there are higher rates, concerns about the economy slowing down, and delinquency is still relatively high. How comfortable are you with continuing to grow the loan portfolio? Is there any line you are concerned about credit quality getting worse, and do you expect any reduction in NPLs from now on?

[Milton Maluhy]

Thank you, Tito, good to see you again. Thanks for your question.

Let me address this topic. As I said earlier, our risk appetite is dynamic and we are always looking at the outlook on interest rates, unemployment, inflation, and GDP, among other indicators. We still believe in a positive cycle and the figures we have been dealing with show our ability to deliver good, healthy growth in our portfolio, with lower cost of credit and NPL rates reducing significantly, even compared to the pre-pandemic period. This is about the first topic. Concerning the second one, we are looking ahead at the future and believe we can face more challenges, as this is a dynamic process.

We are always trying to make adjustments and decisions looking at prospective cycles, which guides the planning for 2025. We still do not have all the figures approved internally. As we are still ironing out the details, I believe that early in the year we will be able to show you some guidance and address our portfolio growth prospects. There are some warning signs we have to keep an eye on, as we will not grow without taking into consideration the prospective scenario. Certain portfolios can post more or less growth, depending on the future scenario, and this will naturally be disclosed and detailed to you early next year.

We have felt comfortable with the pace so far, as we are not estimating or expecting any strong slowdown, and we still have a growing GDP and a reasonable unemployment rate, which is something positive. We see wages rising, some leverage in some segments of the economy and in companies, and those are the points we will be more cautious about. We also see much improvement in infrastructure in some other segments, in which we plan to continue to be very active.
The bank is very large and has a wide range of activities, meaning that we always have to look for long-term cycles. That is the way we manage the portfolio.

[Renato Lulia]

Tito also asked if you see room for further reduction in NPLs.

[Milton Maluhy]

I believe so, Tito. In the short term, we can have some room to reduce our NPL ratios. The cost of credit of the portfolio is still either decreasing or reaching a minimum, so I think it is reasonable to think so, this is expected.

The second topic is on a nominal basis with the portfolio value and the portfolios we are growing. We may have some increase in the nominal figures of cost of credit, but not in relative figures, which is much more important now. We still see some room to reduce the NPL. The corporate is the only segment we find it difficult to make a statement. This is a segment where we are working with a very low ratio, showing no room for improvement. Of course it depends on the scenario, on interest rates. A possible normalization in the credit cycle of companies in general could then have an effect.

The good news is that the provisions for expected losses we recognize are made before we have any delinquency on the NPL, and that's why we have such a large coverage ratio for companies in general and for the corporate segment. We recognize provisions before the cycle and that has no relation with the NLP ratio.

[Renato Lulia]

Thank you, Milton. Let’s switch back to Portuguese. Our next question is from Brian Flores from Citi. Hello, Brian, welcome. Thank you for joining our call.

[Brian Flores]

Thank you, Renato and Milton. My question is about the Latin America portfolio, which seems to be improving. What is driving this improvement, Milton? What can we expected from now on? It seems that we can dream of a ROE back to the 15% level, as last year.

Can you also address your hedge policy, as the exposure to foreign exchange is crucial for this operation, as you have already mentioned. Thank you.

[Milton Maluhy]

Great. Thank you, Brian. Firstly, we have been able to improve all Latin American operations, so these are very solid results. However, it is worth mentioning that, based on our business model, as we disclose it, we carry out tax and capital allocations on a consolidated basis. Among the two major asymmetries we have for operations outside Brazil, one is the tax effect.

We have this logic of universal taxation in Brazil. Every tax I pay locally, I recognize it up to 34 or 45 in Brazil, depending on which event it is incurring, which clearly leads to a tax burden much higher than that of comparable peers operating in their corresponding countries.

As we operate with a very high level of capital, well above the CET1 that these operations have outside Brazil, we also allocate this excess capital to the appetite in operations. This naturally puts pressure on the level of return.

The last but no least piece of information is that when we hedge the capital ratio, we also allocate the cost of the hedge from the stockholder perspective to the operation that generated the effect. It is the opportunity cost of the hedge, of the capital ratio, that we ultimately allocate to the business model. I think that we can operate at this level of return, even if it is a little below 14, which we have disclosed as the cost of capital calculated by our methodology. These are operations in which, if you look at Chile, the Cost of Equity (COE) should be lower than 14.

Today, when an investor buys Itaú Unibanco shares, they do not give a different COE for the bank due to the weighting of our revenues and portfolio size in different countries. To simplify it, we end up doing the same when we look at profitability, as we always look from the stockholder viewpoint. I go back to the issue of management of capital allocation and return on allocated capital. That is how we measure it.

That said, these are acrytics for the income. I think that if we had to adjust the cost of equity of the countries, these would be much closer to the cost of equity and possibly some countries would be even creating value. This is clearly true for Chile, which creates value if we look at the local cost of equity.

If we made all these adjustments, from the Brazilian stockholder viewpoint, it would generate the effect I mentioned a while ago. But, this is the correct viewpoint. That's why we carry out such a measurement.

These are the reasons why we do not expand further outside of Brazil, as it is not and does not seem to be a good allocation of capital beyond what we already have and have been able to significantly improve in a profitable way. Well, this is our vision. I still believe this is a positive trend, and we will continue monitoring it. Regarding your second question, about the ratio hedging cost: we have defined for which currencies we hedge and leave the equity indexed to these currencies and the RWA, the portfolios indexed to the currency, in such a way that if a change occurs in the portfolio, the equity will move proportionally and thus we will be hedging the capital ratio. The opportunity cost was to bring this capital back and leave it invested in Brazilian reais in Brazil with a higher interest rate and growing.

The ratio hedging cost concerns the interest rate differential (IRD) between the pre-existing rate in Brazil, where I could invest this capital, and the pre-existing rate in the currencies of other countries. This effect goes through the P&L, and we see a growing effect for the cost of hedge. You can ask me if for 2024 the ratio hedging cost will be higher or lower. It will be higher than that of 2024, because the interest rate differential will increase.

The other side of this story is that we have an effect on equity, which, in this case, with the depreciation, is positive. When we look at what passes for results and, in essence, is a hedge, in fact it is kind of an insurance for us to have less volatility in the capital ratio, a clearer dividend policy and even make larger distributions so that we do not have to keep recognizing provisions on the grounds of a possible volatility in the future ratio. This brings good management capacity and has a cost, but we think it is an important insurance for the management of the organization's capital ratio.

[Renato Lulia]

Awesome! Thank you, Milton. Let’s go to next question, coming from Mario Pierry from Bank of America.

Hello, Mário, welcome. Thanks for your question.

[Mario Pierry]

Good morning, everyone. Congratulations on the earnings. Another very predictable result, with very high profitability. Congratulations!

Milton, I wanted to focus on the profitability of the retail business. You have already managed to improve ROE to 24% this quarter, from 19% last year, but a large part of this improvement was due to the lower cost of credit. However, the efficiency ratio, and you showed this figure, worsened from 45% to 47%.

Can you address the structural changes you need to make to improve this ratio? I imagine you are not happy with this ratio. When it comes to all these changes you mentioned in the One Itaú’s One App, will there be benefits also in terms of cost or only in revenue? Thank you.

[Milton Maluhy]

Perfect, Mário. That’s an excellent question. Thank you for your initial remarks.

Good to see you here again. Let's start. Firstly, I think we were and have been able to consistently expand the retail ROE.

This ROE has been materialized in two ways. Either in the corporate retail operation or in the individuals retail one. Back then, we ran back at a low, at 16, 16.4.

Back then you asked me if I was satisfied with such profitability level. The answer was a resounding no. In fact, due to the more difficult credit cycle and the relevance of the card portfolio in the bank's balance sheet, especially what we call open sea and the monoliner channels, we recorded a much higher cost of credit, which ended up affecting the profitability of the business as a whole.

We have been increasingly expanding the operation, and the profitability in the retail business segment is already in line with the bank's ROE. It stopped being dilutive for ROE and became neutral. It has created much value when we look at the bank's cost of capital. We see very healthy results, the operation is highly performing and evolving and has already been creating significant value in these past months.

I think this is the first big news, i.e., that profitability is not exclusively concentrated in the portfolio and is below the cost of capital in others. All lines are creating value, although in different sizes.

This is the first piece of information. You are right concerning the efficiency ratio. It was important to carry out the portfolio de-risking and clean out the portfolio.

This was very positive indeed as we were able to resume the profitability level, as, over time, we have some regulatory changes, more competition and less fees. How do we see the evolution of this operation? Firstly, with caps being placed, especially on overdrafts, several points of profitability were taken away.

According to the cross selling that was done and the way products were priced, there was a significant change in market dynamics. Today you have less and less dependence on fees, tariffs, etc. You naturally start having a greater dependence on credit in your relationship with the client, which leads these operations to a lower level of ROE than we historically have had.

The name of the game is efficiency and scale and, obviously, for you to succeed, you must have the ability to generate engagement and have a value proposition so that the client will engage with you in a model much more efficient than the traditional one. As we have been working with the Figital model, we have been adjusting our footprint over the years. We have been doing this very carefully and coordinately at all times.

Simply carrying out a cost reduction process, among other things, if you don't do it intelligently and carefully you will be ultimately sending your clients away. That's not what we want to do.

We want to make a transition and have the value proposition and the business model fit for each client profile. We see very positive profitability and a still significant capacity for growth In the middle- and high-income segments. All businesses are being reviewed, everyone is working on repositioning, no one is complacent, on the contrary, we need to run and run faster and everyone is working accordingly. The cost to serve some of these businesses has changed levels.

To give you an example: in the past, we always worked in high-income segments with the view that the manager was the only point of relationship with the client. With the emergence of open platforms and autonomous agents, we understood that it was important to increasingly specialize and have advisors for these operations. These are the advisors, the Íon, the investment advisors.

Many times the aim is to serve the same client, defend profitability, but with a higher cost to serve. Because now I have, in addition to the relationship manager, an investment advisor or an insurance advisor. You start to have a higher cost to serve, which obviously affects your efficiency ratio.

What has been our management logic here? Firstly, if we don't have state-of-the-art digital platforms, a state-of-the-art digital value offer, you can imagine that we will be able to work with a better efficiency ratio through brute force. But we know that using brute force only gives short-term results. You reduce the cost and adjust the structure, but you will also substantially reduce the lifetime value of your clients in the organization. Our focus over the last few years has been on modernizing the platform, migrating to the cloud, and taking advantage of the entire evolution of generative AI. We have even increased the headcount in technology to further accelerate the bank's digitization process to deliver value.

The 33 new products I was talking about earlier are precisely intended for this purpose. We are working very hard on understanding the business model and the efficiency ratio so that I can target different audiences. Significant work is being done structurally and we hope to reap results over the next few years to be able to substantially improve the efficiency ratio of those segments that really need to be more efficient to generate and create value.

With this level of efficiency, for some segments we have high profitability, for others the profitability is very depressed, especially for low-income audiences. The launch of the Super App is just the icing on the cake. Our efficiency ratio is very similar when we compare our monoliner operation with any neobank.

The results are quite similar. What changes is the size of the loan portfolio and the risk appetite. Apart from that, we already have the capacity today to grow and serve these clients.

The most efficient way to serve these clients will be through the Super App, an app so complete that the even that client with no capacity to be served by middle- or high-income segments will have a much more efficient value offer. This is the work of the Super App, which serves not only the client base being migrated from Mono Apps, but also serves the account holders who will probably be able to have a much better complete offer through a Super App, in a much more efficient way, and with much better revenue generation capacity and an awesome better experience. This is our strategy, it's a path to follow, and we have never been so advanced and well placed to take the next steps.

[Renato Lulia]

Thank you, Milton. Well, next question is from Bernardo Guttmann from XP, who is already here with us. Hello, Bernardo, thank you. Good morning!

[Bernardo Guttman]

Good morning, Renato and Milton. Thanks for having me here and congratulations on the earnings. You had a significant sequential evolution in credit origination throughout the year, driving the expansion of the guidance. On the other hand, the appetite remains a bit more cautious in those lines aimed at individuals, despite the quarterly growth.

The question is whether the rollout of Itaú One and its cross-sell potential can contribute to accelerate origination. The guidance review already implicitly predicts a stronger acceleration in this segment. Now that this risk-off process is over, can we expect the individuals portfolio to converge to a higher level, perhaps closer to the total portfolio, in the next quarters? Thank you.

[Milton Maluhy]

Thank you for the words, Bernardo. It is good to see you here again. There is no impact on the Super App's portfolio growth in our latest review, as it was exclusively carried out on the currency that I mentioned, so it was just a mechanical effect. We believe that the Super App is and will be a great avenue for growth, especially for individuals.

The client range is not open water, as these are known clients, whose credit records we already have and know their behaviors. This client will have more principality for us, based on the cross-sell possibilities and our ability to deliver other products and have a complete relationship and differentiated engagement with them. Having a vision of return allocated from the client viewpoint enables you to increasingly expand the loan portfolio.

Therefore you can have a lower NPL over time due to this client's engagement with the organization driven by this principality. This is the strategy. We are on the right path, and we have to manage expectations.

Based on everything we have set out to do so far, I would say that we have exceeded expectations. The crucial stage, which is to engage the capacity to grow the portfolio and to cross-sell, is just beginning. We have a lot to learn from this process, as this is an ongoing evolution.

We are very optimistic about the projects we are talking about here, which I have been updated. We are also very positive with them. As we are now closing the expectations for portfolio growth, looking ahead to the scenario is fundamental. The catch-up we did this year is the one we have been doing for many years of portfolio growth in target clients, which were masked by the natural reduction in portfolio for cards, vehicles and some segments where we needed to make stronger portfolio adjustments.

Looking ahead, we expect to continue growing at a proper pace. Average balances tend towards peak growth, which is naturally good for revenue and margin. We believe that we are continuing to grow and will be able to generate top line.

However, more important than growing and generating top line is to have a very low cost of credit, which makes our net financial margin to continue to expand and evolve. It's about growing top line more than the cost of credit, as the latter will always have a natural link to the portfolio growth. As we see the capacity to continue growing the portfolio, I didn't want it to be implicit that this revision of the guidance from 9.5 to 12.5 is a landing point for next year's portfolio.

This is not the message. I wanted to make this very clear to you. We haven't finalized the figures yet. We can predict growth in all segments, but we are not here stating or anticipating that our portfolio growth guidance will be 9.5 to 12.5.

It will be in 2024. I am not anticipating any guidance for 2025 yet. We will have the opportunity to address it with you early I the year and bring you more data, information and even more scenario information. By the way, I think today we'll have the US elections.

There is this whole discussion about taxation, interest rates, inflation, exchange rates. These are very significant variables that naturally affect the portfolios' appetite for growth. Early in the year, we will have more information and will be able to be more precise and transparent with you.

[Renato Lulia]

Awesome! Thank you, Milton.

Now switching back to English, we have Carlos Gomez from HSBC for our next question. Hello there, Carlos, welcome! Thanks for joining our call.

[Carlos Gomez-Lopez]

Thank you very much and congratulations again on the earnings. I have two technical questions, and the first one concerns your provisions for labor claims. They are up nearly 70% on a year-on-year basis. I wonder whether something special has changed or it is something voluntary, since you are delivering good results. What is the reason for this increase and what can we expect for the future? The second one concerns the Provisional Measure No. 1,261. Could you elaborate on when it will start to be applied and what period you are considering between 7 and 10 years?

[Milton Maluhy]

Thank you very much Carlos. Your first question is just great! If you look at our level of provisions for labor claims relating to the payments we made in 2024, then looking at the last 9 months, you will see that we have a ratio of 3.5. This means a provision level 3.5 times the level of payments we made in cash in 2024.

This shows how strong our level of provisions is and that we have the same approach for credit and other risks, such as for provisions for labor claims with expected losses. We are always anticipating this cycle and recognizing provisions almost at expected losses for labor discussions and labor claims.

I believe the most relevant piece of information concerning growth is that decisions are made much faster in 2024 than in 2023. We see now an improvement of court decisions at a speed of 15 to 20% faster than last year. The second one is that we had positive effects in 2023, with some revisions and reversals we made in our balance sheet, so there is a base comparison that is not exactly the same.

The third good piece of news is that our legal costs, particularly on labor claims, significantly dropped year-on-year, showing that we are more efficient and much more insightful in decision-making and court litigations. In general, I think this is a base comparison and the most relevant impact has to do with the increase in cases. It was also driven by the restructuring carried out at the bank throughout the year. We have more cases emerging and many more cases being discussed in the courts, so this is the most relevant impact I can see. This is the first topic.

The next question was...

[Renato Lulia]

provisions for settlement...

[Milton Maluhy]

We have not made a decision yet concerning the provisions for DTAs.

I believe that, if it were for 7 or 10 years, we would have no impact on capital ratio, but we are now having these discussions because we will have the election until the beginning of the year and this will be applied from 2026 on. Therefore, 2025 will be like a period without a bonus and from 2026 onwards we will have this impact. I emphasize again that we will be making this decision early in the year. It is clearly dependent on a number of elements. However, as it is a long-term cycle we must make a decision based on these projections. As we haven't finalized it yet, we should release this information early next year.

[Renato Lulia]

Thank you Milton and Carlos. We will continue in English, as the next question comes from Andrew from Morgan Stanley. Hello there, Andrew. Thanks for joining our call.

[Andrew Geraghty]

Hello, Milton and Renato! Thanks for the opportunity to ask questions. Could you please elaborate on your perspectives on the acquiring business? There was a good quarterly improvement in revenue, but the total payment volume, at 4% year-on-year, is the lowest growth rate since 2020. What do you think is causing this slowdown? Maybe it's the competition or simply that your disclosures don't include PIX and there is a change in PIX volumes, so how is this impacting the business? I am curious about your perspective on what will happen as the SELIC rate rises. There may be other players increasing prices or Itaú would try to do the same? Anything you could share about this side of the business would be useful. Thank you.

[Milton Maluhy]

Right, thanks for your question, Andrew. At first, when you take PIX into consideration, you see that specifically on the debit side, PIX has a big impact for credit and debit cards. This is also true for the acquirer business on the debit side as well. The way we show the acquiring business is not the best, as it is spread across several MD&A lines. Therefore, part of the results are in commissions and fees, other part is in the financial margin with the client, the cost of financing is there, the flags or the MDR in the services margin, so we are thinking about how to provide better quality information to the market from 2025 onwards.

However, the most significant piece of information I need to give you is that we no longer look at the acquiring business as a product, as we used to do in the past. At that time we had many companies, all of them competing in the acquiring business. In the same way we had a separate company, we had public companies, so everyone, everyone was looking at that specific business. Our aim is for payments, rather than the acquiring business in itself. The payment business is 10 times larger if we compare both business. This is just another value proposition of ours when we talk about payments and receivables with our clients, so it is part of our huge portfolio, as we have the acquiring business as another product to offer to our clients. We have been very cautious in pricing, as the total payment volume is basically stable, and we have increase capabilities to offer more financial products and of course looking at the client relationship as a whole, rather than just looking at it from the product perspective. That's basically what we see now.

We have been able to defend our market share, we are the leading company in the market and see a lot of efforts happening. However, we do not believe that the right way is, as we see in the market, to put more people to sell, because at the end of the day you can sell a lot, but this is not the guaranteed best way and does not necessarily reduce the turnover. The acquisition cost is very high and you don't generate engagement. For us, the name of the game is engagement, long-term value, lifetime value, and long-term relationship with the client. That's why for me the acquiring business is a product we have in a very broad portfolio of payments and receivables. Although this growth is slightly smaller, on the credit side it has been more expressive, and we have to look at the other payment methods together in this portfolio to have a broader view and the client's viewpoint. This is my view on this issue.

[Renato Lulia]

Thank you, Milton. Now let's move on to the next question, back in Portuguese, since Natalia Corfield from JP Morgan, is with us here. Hello, good morning, Natalia. Thank you for joining the call.

[Natalia Corfield]

Good morning, everyone. Thank you for taking my question. It's entirely related to capitalization and your AT1 call that was announced yesterday.

I'm assuming this AT1 will be completely replaced by local AT1s. Am I right? What has led you to make this calculation?

What has gone through your minds? What has led to this decision? Finally, how do you see the balance between local AT1 and international AT1?

[Milton Maluhy]

Excellent, Natalia! Thanks for the question, it is good to have you here with us.

Firstly, let me go back to something I always say here at the calls. The decision to whether exercise the call of an AT1 is an economic one. Of course, we take other factors into consideration, but it is primarily economic-wise. This is the first piece of information.

The second one is that we have no obligation or guideline to drive "with a full tank". What I mean is that we don't necessarily want to run at 1.5% fully loaded, as it mostly depends on the bank's capitalization level.

With a CET1 of 13.7%, if we do not have the capacity to go to market in a very efficient way, then it will make no sense for us to continue carrying debts with such high coupon and interest rate.

Therefore, decisions are not necessarily 100% correlated. Of course we exercised the call as we saw an opportunity to issue locally under more competitive conditions than simply resetting and continuing with this perpetual bill outstanding. That was the main decision.

Surely I will not necessarily access the local market with the same volume as the call exercise, because we have tolerance to go below 1.5% if necessary. If we have the opportunity to capture a volume equivalent to that exercised in calls in the foreign market, we will seek this opportunity in the local market. I emphasize that, for us, the economic viewpoint, and price and opportunity are more important than the volume of supply.

Just to give you some figures, in this case, from September to October we issued R$3.8 billion in perpetual bills in the local balance sheet and we exercised this call now for R$1.25 billion. Therefore, we issued fewer reais than in the call we are exercising now. We are very happy with that, even if the AT1 comes to a level slightly below 1.5, which is the regulatory cap.

This is very important, and I go back to my original point, as this does not impact the organization's dividend policy. Exercising a call on an AT1 and reducing the AT1 level in the balance sheet in the bank's capital ratios does not mean that I am repurchasing, as if it were a share buyback and, therefore, reducing the organization's payout via dividends or interest on capital. There is no relationship whatsoever, as we will always look at the CET1 capital in the way we disclose it and is based on it that we make decisions for dividend payments.

That was an economic-wise decision, as we understood that at the current price it was more efficient to issue locally than to continue carrying out the operation, even if we could issue a smaller volume than we had in calls being exercised. This will always be the logic of our decisions.

So, if there is a call next March of next year, how are you going to decide? It will be based on the same rationale, it will depend on the market conditions at the time, both at the domestic and international markets. Are we going to issue new ones or not? We don't know yet, we do not need to. I think this is the main piece of information I can give you. The hard part when you need to go to the market is that then the price is not a variable that you control. We have been able to do this timely in advance so that we can have the best price, at the best possible opportunity. Economically wise, it is a proper capital management decision.

[Renato Lulia]

Great! Thank you, Milton.

Now. let's switch back to English for the last question of the day. I mean, last but not least, we have now Nicolas Riva from Bank of America. Hello Nicolas, good to see you again. Thanks for the question.

[Nicolas Riva]

Hello Renato, thank you very much for the chance to ask a question. Hi Milton, I have a question to follow up on what Nathalia asked before. She asked about AT1s and you made it clear that you may have less than 1.5% of AT1 capital, so we should not expect an issuance in international markets, at least of AT1s. Regarding Tier 2s, you also recently announced that you will call the 2029 bonds in November, the capital impact is smaller, and it will be only 3%. You have also been looking for Tier 2s in the local market, in which case we should assume that there will be no plans for issuing Tier 2s in international markets? That's my question on Tier 2s and then the second one is on IFRS 9. You have a slide in the presentation and it seems that your message is that there will be no significant impact on the provision for loan losses or capital ratios. I understand that you are already using expected losses, but to calculate provisions for loan losses. Therefore, in terms of the way you disclose the asset quality, I believe you will break down the loan portfolio into three stages based on the number of NPL. I wonder whether the stage 3 loans will be defined as NPL 90. Thank you very much, Milton.

[Milton Maluhy]

Thank you Nicolas. First of all, the same comments I made for AT1s apply to Tier 2s. This means that from an economic perspective, we will look at the market, the market conditions, the price.

Of course, we know the importance of having an international curve for our debt, so we always try to have a mix in the way we finance the balance sheet of the organization. The price is an essential factor. Otherwise, if there is any arbitration or incentive to do it locally, we will prefer to do so. If there are good price conditions to do something abroad, we will be in this market too. So, it is not just the price, as it is a significant part of our decision-making process, as we must take into consideration other information, such as the depth of the market, how much we can raise, our needs, whether it is important to have a curve in US dollars and to have, of course, investors being served by this debt. We consider all this and then we proceed. Regarding your second question, we must remember that this is not exactly how we see the IFRS 9 approved in Basel. I mean, the guideline is practically the same, but we have some adaptations for the Brazilian context. This has to do with many topics, it's not exactly the way we deliver IFRS 9 today. It's a different way and we're very comfortable about the level of stages we have, as we won't see many changes, although there are some changes in accrual. Today we have to do it in 60 days, it will be changed to 90 days. On the other hand, we have to recognize provisions for a security with the expected loss. Once we have the entire balance sheet consolidated, there will be no huge difference from our reporting today, although there are some adjustments to local laws and regulations that we must take into consideration. These adjustments will be made and released as soon as possible. I think the main message is the one mentioned at the beginning of your question, that there will be no impact for us on the organization's capital, capital ratio or cost of credit.
This is the key message I need to get across. There may be other adjustments, but none are material in any way.

[Renato Lulia]

Thank you, Milton. That was the last question received here from analysts. We also got many questions via WhatsApp and these will be answered directly by the IR team.

All in all, I want to pass it back to you, Milton, so you can finish our call today with your last messages for our audience. Thank you, Milton.

[Milton Maluhy]

Thank you, Renato, for having conducted this event.

Thank you everyone. It was a pleasure to be here with you again. I think it was a very solid quarter, with plenty of quality, a very reasonable mix and positive prospects. We have been able to deliver a better, bigger bank with great profitability. There will always be challenges, but we remain with our feet on the ground, staying humble and careful, as past performance is no guarantee of future performance. We need to have discipline every day, work with the maximum level of engagement and energy in the organization and, above all, deliver a company that is increasingly client-centric, a company that has been changing over the years. This has been our daily purpose.

I wanted to thank you for your trust and all quality questions. They always make us reflect if we could do anything different or better. As we say here in our culture, we may not know everything, but we have each other's back. We really have a super positive and optimistic energy, we are always optimistic. Anyway, there are another 100 years ahead of us, so we have a lot of work to do. I wanted to once again thank all of you who were able to watch and join this presentation. We will see you soon at what will be an even more lively call, where we will address guidance and a lot about dividends.

Just expect positive news and the fourth quarter earnings. I thank everyone once again! I am looking forward to seeing you next time.