Operator

Good afternoon, ladies and gentlemen. Welcome to Nu Holdings conference call to discuss the results for the **third quarter 2023**. A slide presentation accompanies today's webcast, which is available on Nu's Investors Relations website: www.investors.nu in English and www.investidores.nu in Portuguese. This conference is being recorded and the replay can also be accessed on the company's IR website.

This call is also available in Portuguese. To access, you can press the globe icon on the lower right side of your Zoom screen, and then choose to enter the "Portuguese room". After that, select "mute original audio".

Para acessar nossa conferência em português, clique no ícone do globo ao lado inferior direito da sua tela Zoom e selecione a opção "Portuguese room". Ao acessar a nova sala, certifique-se de mutar o áudio original.

Please be advised that all participants will be in listen-only mode. You may submit online questions at any time today, using the Q&A box on the webcast.

I would now like to turn the call over to **Mr. Jörg Friedemann, Investor Relations Officer** at Nu Holdings. Mr. Friedemann, you may proceed.

Jörg Friedemann: Thank you very much operator. And thank you all for joining our earnings call today. If you have not seen our earnings release, a copy is posted in the Results Center section of our Investor Relations website. With me on today's call are **David Velez, our Founder, Chief Executive Officer and Chairman, Youssef Lahrech, our President and Chief Operating Officer, Guilherme Lago, our Chief Financial Officer, and Jag Duggal, our Chief Product Officer**.

Throughout this conference call, we will be presenting non-IFRS financial information, including adjusted net income. These are important financial measures for Nu, but are not financial measures as defined by IFRS and may not be comparable to similar measures from other companies. Reconciliations of our non-IFRS financial information to the IFRS financial information are available in our earnings press release.

Unless noted otherwise, all growth rates are on a year-over-year FX neutral basis.

I would also like to remind everyone that today's discussion might include forward-looking statements, which are not guarantees of future performance and therefore you should not put undue reliance on them. These statements are subject to numerous risks and uncertainties and could cause actual results to differ materially from our expectations. Please refer to the forward-looking statements disclosure in our earnings release.

Today our **Founder, Chairman and CEO, David Velez**, will discuss the main highlights of our third quarter 2023 results and provide an overview of our company flywheel. Subsequently, **Guilherme Lago, our CFO, and Youssef Lahrech, our President and COO,** will take you through our financial and operating performance for the quarter, after which time we will be happy to take your questions.

Now I would like to turn the call over to David. **David,** please go ahead.

David Velez: Thank you, Jörg. Good evening, everyone, and thank you for being with us today!

Once again in Q3´23, Nu continued its remarkable upward trajectory demonstrating strong operating performance, fast growth, and increasingly robust profitability. We remained focused on executing our business plan without distractions, while keeping an eye on the significant growth opportunities we have as a company in the long run.

Reflecting on one of the key milestones of the third quarter, our pace of customer growth exceeded our expectations, culminating in over 89 million customers at the end of the quarter. Once again, we witnessed robust customer acquisition in Brazil, Mexico and Colombia, with slightly more than 1.5 million new customers per month. Over the past 12 months, our customer base growth in Brazil has outpaced that of the five largest incumbent banks combined. Additionally, we welcomed over 700 thousand new customers in Mexico during the quarter, driven by the rollout and continued expansion of Cuenta Nu and the unlocking of our member-get-member referral program's potential.

Our business model continues to demonstrate its ability to drive both growth and profitability. In the third quarter, our revenues surged to US$2.1 billion, marking a 53% year-over-year increase. Our gross profit reached US$915 million, doubling year-over-year, while our gross margin expanded once more, reaching 43% this quarter, solidifying the upward trajectory initiated last year. Sequential gross margin expansion, coupled with further efficiency improvements, significantly boosted our net income, which reached US$303 million, and adjusted net income stood at US$356 million, reflecting a 34% quarter-over-quarter increase on an FX-neutral basis for both.

This slide provides a high-level overview of our financial performance trends over the past two years. It underscores our ability to consistently expand our customer base and increase revenues while driving profitability. Notably, in October, we reached a significant milestone by surpassing 90 million customers, firmly establishing us as the fourth largest financial institution in Brazil in terms of the number of customers, or as the second largest measured by the number of customers with access to a credit product.

The robust growth of our customer base, driven by the growing cross-selling and upselling opportunities facilitated by our highly engaged platform, resulted in a more than fourfold increase in quarterly revenues in just two years on an FX-neutral basis. This translates to a triple-digit revenue annual compounded growth rate over this period.

The third chart on this slide effectively illustrates our prudent pricing strategy and robust underwriting capabilities. Our quarterly gross profit, calculated as total revenues minus funding costs, transactional expenses, and credit loss allowances, also increased by more than fourfold in the same period. This growth was achieved while maintaining healthy gross profit margins, despite increased credit delinquency observed in the market over the past twelve months.

Lastly, we believe the synergistic impact of the mentioned factors, combined with the potent operating leverage of our platform and the maturation of our early products in Brazil, has led to a significant acceleration in net income growth. This growth is evident in the chart on the right, covering the past three quarters. We anticipate this compounding effect to continue in the coming periods, resulting from the combination of sustained growth and enhanced profitability within our platform.

As evident from this slide, our platform continues to showcase its cross-selling potential, offering our customers comprehensive solutions as we continue to expand the scope and diversity of our product offerings. While our initial focus was primarily oriented towards unbundling financial services, as our platform has evolved, today we expect our most significant opportunities to lie in the rebundling of financial services by creating a diversified, multiproduct, multi-segment, and multi-country portfolio of businesses. As illustrated on this slide, even our complementary businesses have successfully attracted millions of customers, highlighting our impressive cross-selling capabilities.

As we will delve into later in this presentation, we believe that critical product launches announced this year and slated for 2024 will help further solidify our position as the preferred banking partner for an increasing number of customers. We expect this, in turn, will drive the expansion of our growth and profitability engines.

I'd like to take a moment to delve into our company's flywheel, a pivotal driver of our past growth and an essential foundation for our future success.

The core element of our strategy is very simple. We work extremely hard to make customers love us fanatically as we build what we think are the very best products and services in the markets we operate. This obsession for our customers´ experience enables our customer base to expand, both in terms of size and engagement. By the end of Q3'23, we had achieved an impressive milestone, with over 50% of Brazil's adult population as part of our customer base, and steadily increasing market shares in Mexico and Colombia. This level of scale allows us to aggregate both structured and unstructured data which becomes an invaluable competitive asset as we currently accumulate about 30 thousand data points on each active customer annually, and this is growing exponentially over time.

Through harnessing cutting-edge technology, we've transformed this data into actionable intelligence, continually enhancing our credit underwriting and customer insights models. These model refinements, in turn, empower us to broaden the scope of our product offerings, reaching even larger segments of the populations we serve. This scale allows us to reduce our operational costs, efficiency which we then decide to pass to our customers via lower prices, helping us provide better products and services at competitive rates, and thus starting the virtuous cycle again.

The momentum we are seeing over the past twelve months is a direct result of this flywheel accelerating. And in Q3 we had the opportunity to throw fuel to the flywheel with the introduction of new lending products such as payroll lending, where we decided to price at very competitive price points. The efficiency of our model also enables us to make these pricing decisions while maintaining healthy unit economics. We are seeing meaningful price elasticity in these products and are excited about the opportunity to use our efficient cost structure and data sophistication on our customers' behalf.

Now, I'd like to highlight how our flywheel isn't just driving customer acquisition and data growth but also sustaining strong momentum in our key financial metrics.

As our three geographic regions continue to expand, benefiting from the inherent operating leverage of our model, our holding company is effectively converting its potential into profits. In the third quarter, Nu Holdings achieved an impressive adjusted net income of US$356 million, reflecting an adjusted annualized return on equity of 25%. We believe our current level of profitability already positions us ahead of most traditional incumbent banks in the Latin American region. It's worth noting that we've achieved this remarkable result, even as Mexico and Colombia continue to be in the early stages of investment, and we believe Nu maintains a considerably larger capital base compared to our peers. As a reminder, our holding company holds US$2.3 billion in excess capital, which can be strategically allocated to our operating subsidiaries as we continue to grow. As a reference, if we take our Brazilian operation, considering this excess cash, we could cover 3.1x the required capital for Brazil.

It's important to underscore that we are achieving these strong levels of profitability while making substantial investments in future products and geographic expansion. Simultaneously, we're delivering a robust 53% year-over-year revenue growth rate, a feat that we believe few financial institutions at our scale can match.

As you can see, we're once again thrilled with the momentum of our business, and now I'd like to pass the floor to our CFO, Guilherme Lago, who will guide you through our financial numbers. Over to you, Lago.

Guilherme Lago: Thank you, David. Good evening, everyone.

As David mentioned, we have once again achieved a strong quarter in terms of our operating and financial key performance indicators. This accomplishment is a result of our commitment to a simple yet powerful value-generating strategy, which can be summarized into three guiding principles.

First, we continue to expand our customer base in the markets where we operate, quickly transforming new customers into active ones.

Second, we are focused on increasing the average revenue per active customer, or ARPAC, through effective cross-selling and up-selling initiatives.

And third, we are dedicated to achieving growth while maintaining one of the industry's lowest operating cost structures.

Let's delve deeper into our third-quarter results to understand how these three principles continue driving value for our company.

During the third quarter, our customer base continued to display impressive growth, expanding by 27% year-on-year as we welcomed 5.4 million new customers, bringing our total to 89.1 million customers at the quarter's close. Notably, in Brazil, our monthly net additions remained steady, with slightly over 1.5 million customers, a significant portion of whom were acquired through cost-effective organic channels. In Mexico, our customer count crossed the 4.3 million mark, and in Colombia, we are now serving nearly 800 thousand customers. We are preparing to introduce our savings account in Colombia by year-end, anticipating further growth.

Our active customer base increased by 29% year-over-year, with the monthly activity rate posting another sequential quarterly increase, reaching 82.8%. We believe this outcome underscores Nu's effectiveness in engaging our customers on our platform.

Turning our attention to revenue expansion, the first chart highlights that Nu has established primary banking relationships with nearly 60% of our active customer base. As we have emphasized in previous discussions, the more customers choose Nu as their primary bank, the more products they tend to utilize. We see the synergy between these two factors as continuing to be the driving force behind the sustained quarter-over-quarter growth in the ARPAC.

The second chart illustrates our product cross-selling performance, showcasing our successful strategy of introducing new products to our customers, effectively cross-selling, and establishing ourselves as their primary banking partner.

Lastly, the third chart depicts our ARPAC performance. This chart represents the compounding effect of our expanding customer engagement, as demonstrated in the first chart, combined with our growing product cross-sell capabilities, as shown in the second chart. In this quarter, our monthly ARPAC reached a new milestone, breaking into double digits at US$10. Furthermore, our more mature cohorts are already achieving a monthly ARPAC of US$26. The increase in ARPAC has resulted in another quarter of solid revenue growth, as depicted in the next slide.

Monthly ARPAC has continued its growth trend, expanding by 18% year-over-year for yet another quarter. As we have emphasized in previous discussions, our confidence remains high that there is still untapped potential for further ARPAC growth, moving us closer to realizing what we believe is our full ARPAC capacity.

This ARPAC growth, coupled with the expansion of our customer base, has led to a 53% year-over-year increase in revenue, reaching a new record high of US$2.1 billion.

Now, let's delve into our cards business. Purchase volumes have surged to US$29 billion, marking a 28% increase compared to a year ago. Once again, this growth has been primarily driven by our successful product upsell and cross-sell strategies, as well as stronger customer engagement.

The chart on the right illustrates the correlation between purchase volumes and the aging of customer cohorts. Notably, older cohorts continue to exhibit higher purchase volumes, spending more per month compared to recent cohorts. We believe the compounding effect of integrating millions of new customers each quarter, coupled with their gradual transition to higher spending patterns, will help support the future growth of purchase volumes.

When comparing our purchase volume relative to the market, this quarter, our market share for credit cards stands at approximately 13.7%, up from 12.2% one year ago, with prepaid cards at 15.5%, compared to 12.8% one year ago. As we continue to gain ground, our confidence in our ability to capture additional market share in the future grows. This confidence is grounded in the consistent pace of customer acquisition and the deepening maturity of their relationships with us.

Our credit cards and personal loans portfolio, also known as the consumer finance portfolio, reached a significant milestone this quarter, now amounting to US$15.4 billion and marking a 48% year-over-year growth.

Both segments of our portfolio maintained their growth trends. Credit card loans expanded by 46% year-over-year, now standing at US$12.3 billion. We believe this growth is a direct result of our consistent pace of customer onboarding into our ecosystem and our low-and-grow credit expansion approach. Furthermore, our personal loan portfolio's growth rate accelerated sequentially, registering a 48% increase year-over-year and reaching US$3.1 billion. Our personal loan cohorts continue to exhibit the expected credit behavior, enabling us to increase origination for yet another quarter.

We see meaningful opportunities to continue to expand our credit portfolio going forward with attractive returns and robust resilience. As a result, this may intentionally lead to higher delinquency rates but our goal is to ensure those will be more than offset by additional revenues and result in higher risk-adjusted net interest margins.

Now, let's delve deeper into the breakdown of interest-earning loans within our credit card portfolio.

Our interest-earning installment balance continued its growth this quarter, now constituting 21% of our total credit card loan portfolio. This expansion is a direct result of our strategic commitment to bolstering our transaction financing product portfolio, with special emphasis on PIX financing. This strategy is intended to capitalize on the increasing adoption of PIX in Brazil, where we remain one of the leaders among PIX service providers.

Over the past year, we have steadily expanded our transaction financing portfolio, and we see its performance reinforcing our belief in its ability to deliver highly attractive risk-adjusted rates of return. This approach not only allows us to further monetize our credit card business and our PIX market share, but also unlocks substantial value for our customers.

Our personal loan portfolio continues to demonstrate impressive resilience, aligning with our expectations for asset quality and allowing us to steadily sharpen our credit underwriting and expand our origination levels. In the last quarter, personal loan originations saw a 93% year-over-year increase, reaching an all-time high of R$8.9 billion.

Furthermore, we have made substantial progress in broadening our lending product portfolio. Year-to-date, we have introduced payroll loans for federal public servants and retirees, as well as FGTS-backed loans for the wider Brazilian population. Additionally, we've initiated the offering of unsecured personal loans for our Mexican customers. While these new products may not have a material impact on origination volumes or the credit portfolio for 2023, we expect them to lay the groundwork for continued growth and an even more resilient credit portfolio in the coming years.

Our confidence in our ability to sustain and drive substantial growth in the personal loans segment is underpinned by several factors. These include our substantial and expanding customer base, our strong underwriting platform, our robust capital base, and our ample liquidity position. Moreover, as of June 30th, around 50% of the outstanding balance of unsecured personal loans in Brazil was already held by Nu's clients, and nearly 40% of the outstanding balance of payroll loans in Brazil is also held by Nu's clients. In essence, we believe we have significant opportunities to expand our market share in these credit products while selectively targeting our most valued customers.

Now, let's turn our attention to funding. Our total deposits continued their growth, expanding by 26% year-over-year and reaching US$19.1 billion this quarter. This progress indicates another significant stride toward the realization of our objective – which is building one of the most robust local-currency retail deposit franchises in the region to support our consumer finance operations across the three geos where we operate. Our loan-to-deposit ratio, or LDR, for this quarter remained stable at 35%, with deposit growth showing sequential acceleration. One year ago, our LDR was at 25%, indicating our ongoing efforts to optimize our balance sheet. But we believe there is still ample room for additional balance sheet optimization ahead.

Our cost of funding for this quarter held steady at 80% of the interbank deposit rate of Brazil, aligning with our expectations. This consistency underscores our progress in harnessing the value of our robust liability franchise. We anticipate a slight decrease in the cost of funding next quarter, given the seasonality observed in the final quarter of the year.

Regarding Cuenta Nu in Mexico, at the close of the third quarter, we had accrued over US$150 million in deposits and amassed almost 2.4 million accounts. We believe the strong reception of our value proposition underscores our potential to further expand our deposit franchise model across Latin America. As mentioned previously, we also expect to launch our savings account in Colombia in the near future.

Our net interest income, or NII, reached US$1.2 billion this quarter, marking another robust period of growth with an 111% year-over-year increase. We believe this expansion can be attributed to the continued growth of our credit card and personal loan portfolios, which collectively have been the driving force behind the expansion of our NII and our net interest margin, or NIM, reaching new record highs. Our NIM achieved 18.8% this quarter, showcasing an increase of 7.7 percentage points compared to one year ago.

Now, let's focus on the third pillar of our strategy: achieving a low cost-to-serve. We firmly believe that our most relevant and differentiating competitive advantage lies in maintaining a low cost-to-serve. As we've highlighted in previous discussions, our objective is to sustain our cost-to-serve at or below the US$1 level for the foreseeable future. In the third quarter of 2023, we once again successfully realized this goal, with a cost-to-serve per active customer standing at US$0.9. This figure currently remains virtually unchanged on an FX neutral basis when compared to one year ago, all while our ARPAC increased by 18%. We believe this outcome underscores the robust operating leverage inherent in our business model.

Our gross profit increased to a new quarterly record high, reaching US$915 million, marking an 100% year-over-year increase. Our gross profit margin reached 42.8%, an increase of one percentage point sequentially and a 10 percentage points increase compared to the previous year. This data underscores the margin expansion that began in the third quarter of 2022.

Notably, Nu achieved this result even in the face of higher credit provisions, a natural consequence of our growth in both credit card and personal loans, as discussed in previous slides.

We maintain our commitment to operating leverage as a defining element of our strategy. The chart provided here underscores the ongoing enhancement of our efficiency ratio over time. In Q3, we reached a new all-time low, registering an efficiency ratio of 35.0%, marking the seventh consecutive quarter of improvement. We firmly believe that this level of efficiency positions Nu Holdings as one of the most efficient companies in Latin America.

While we've already achieved an impressive level of efficiency, we anticipate additional gains in operating leverage as we continue to scale through increased customer expansion, product upselling, cross-selling, and the introduction of new features and products. Also, we believe there is potential for increased leverage in the future, especially as our Mexican and Colombian geos, which are currently operating with losses, reach their inflection points.

Lastly, in terms of profitability, we are delighted to report yet another quarter of robust bottom-line performance. Our adjusted net income has reached US$356 million. Meanwhile, net income for the third quarter stood at US$303 million. These strong and positive results serve as evidence of the effectiveness of our strategy and business model.

While we are pleased with the results we have achieved thus far, it's important to reinforce that our business is managed with a keen focus on long-term value creation. With this perspective, our strategy may entail additional short-term investments aimed at unlocking further long-term value creation opportunities.

As I wrap up, let me provide a summary of the sustainable advantages across all four cost pillars:

- In terms of Cost to Acquire, we successfully added more than 5 million customers this quarter while maintaining what we believe to be one of the lowest Customer Acquisition Costs among consumer fintechs and banks on a global scale.
- On Costs to Serve, we consistently kept it below the US$1 threshold, which we estimate to be approximately 85% lower than that of incumbents. Our efficiency ratio is at 35%, which we believe makes Nu one of the most efficient companies in Latin America.
- Regarding Cost of Risk, we have effectively managed the risk within our credit portfolio, even in the face of a challenging backdrop, outperforming competitors on an apples-to-apples basis in terms of delinquency rates.
- Finally, on the Cost of Funding front, we maintained our cost of funding at 80% of CDI, all while increasing deposit volumes substantially, thus closing the negative gap against incumbent banks and widening the positive gap over consumer fintechs.

We are pleased with the results achieved this quarter, and we remain confident in our ability to develop and scale best-in-class products, expand internationally, and continue to operate at low costs.

Now, I would like to hand the call over to Youssef, our President and Chief Operating Officer, who will walk you through some key highlights of our asset quality.

Youssef Lahrech: Thank you, Lago and good evening to you all. I will take you through some of the key indicators of asset quality and credit portfolio health for the third quarter of 2023.

Let's begin with NPL trends.

Our leading indicator, NPL 15-90, showed a slight improvement, with a decrease of 10 basis points from last quarter, ending Q3 at 4.2%. This was in line with our expectations.

Our 90+ NPL ratio increased from 5.9% to 6.1% quarter over quarter, and was also in line with our expectations. It's important to note that this ratio exhibits a "stock behavior" due to loans moving through the delinquency buckets, rather than a "flow behavior." As a reminder, we have not sold any credit receivables, so our NPL rates require no adjustment.

Renegotiations stood at approximately 9% of the book this quarter. It's worth noting that nearly half of these renegotiations were from loans that were current and not past due at the time of renegotiation. Furthermore, about 90% of renegotiations occur before the loans are 90 days late, thus having a limited impact on NPL rates.

I'd like to take the opportunity to reiterate what Lago mentioned earlier. We see meaningful opportunities to continue to expand our credit portfolio going forward with attractive returns and robust resilience levels. We expect part of that growth to come from expanding down the credit spectrum. As a result this may lead to intentionally higher delinquency rates, but our goal is to ensure these will be more than offset by additional revenues, and result in even higher risk-adjusted margins as we grow.

Now, turning to the performance of our CC portfolio versus industry, the six graphs on this slide show the time-series of NPLs for credit cards by income band. The purple line represents Nu and the gray line represents the Brazilian industry. As you can see, our NPLs continue to outperform the industry on a like-for-like basis in most segments. This is even more pronounced within the lower income bands.

The growth of our portfolio has a direct impact on our provisions because we frontload credit provisions when originating loans, in accordance with IFRS 9 standards. Therefore, the increase in credit loss allowance of US$628 million for this quarter directly reflects the elevated level of loan origination during this period.

Despite the increase in provision volumes, our Risk-Adjusted Net Interest Margin reached a new all-time high of 9.0% for this quarter, a 100 basis points increase quarter-over-quarter. Compared to the same period a year ago, Risk-Adjusted NIM is up nearly 3x.

In summary, we are very pleased with our results this quarter, the progress we've made and the track record we've built over the years. Our asset quality and returns remain robust through the cycles, reflecting our effective approach to pricing for risk and superior credit underwriting capabilities. We couldn't be more excited about the prospects for continued resilient, high return growth going forward.

With that, we're now ready to address your questions. Thank you very much.

Operator: We will now start the Q&A session for investors and analysts. If you wish to ask a question, please press the "reaction" button and then click on "raise your hand". If your question is answered, you can exit the queue by clicking on "put your hand down". Please limit yourself to one question and a follow-up. If you have further questions, please re-enter the queue. You may submit online questions at any time today, using the Q&A box on the webcast.

I would like to turn the call over to **Mr. Jörg Friedemann,** Investor Relations Officer.

Jörg Friedemann: Thank you, operator. And our first question comes from the line of Jorge Kuri at Morgan Stanley.

Jorge Kuri, Morgan Stanley: First of all, congrats on the numbers. I wanted to ask about credit card growth on a sequential basis. We see the dollar numbers and those seemingly decelerated quarter-on-quarter. But I'm wondering what the FX impact is, we just don't know what percentage of the book is Brazil and versus Mexico. So it's hard to look at it on an FX-neutral basis. But just assuming most of it is in Brazil, I'm getting to a FX neutral quarter-on-quarter growth of credit cards of around 6%, which is lower than the 10% you registered in the second quarter and also 10% in the first quarter. So somewhat of a deceleration. So I wanted to see, indeed, those are the right numbers on an FX-neutral basis? And if so, what do you think explains that much lower growth rate versus the previous quarters? Thank you.

Guilherme Lago: Jorge, thanks so much for the question. Yes, I think you are very much right on the need to do an FX adjustment. I think the Brazilian currency depreciated in the third quarter of the year. And therefore, it probably makes more sense to look at this on an FX-neutral basis. In our calculations, the FX-neutral evolution of our total credit portfolio, both credit cards and lending grew by about 9%, which we believe is continues to be a fairly healthy growth. But in terms of credit card more specifically, in the third quarter of 2023, the overall market decelerated a little bit. We, however, continued to gain share. We grew what we estimate to be anywhere between 50 to 60 basis points market share in the quarter. We believe that we have become the second largest credit card issuer in Brazil already. And we also estimate that we will continue to acquire market share in the coming quarters. There is one additional caveat that I would make in the credit card numbers Jorge, which is an accounting change that we have made in the way that we account for the credit card receivables. Starting in the third quarter of 2023, the credit card receivables are accounted in our balance sheet as the present value of the future flows just like the credit card payables. And that has cost us about US$150 million to US$200 million in the credit card book. But all in all, I think the FX-neutral growth anywhere between 7% to 9% for credit card robust market share gain, and we are becoming the second credit card issuer in the country.

Jorge Kuri, Morgan Stanley: Thanks, Lago, that was a very clear explanation. I wanted to ask for a follow-up also on credit, if I may. The follow-up is on payroll loans. Is there any metric that you can share on the payroll product during the third quarter, what cross-selling you've been able to do with your clients, what market share of origination you've achieved, any metric would be very helpful for us to gauge your initial success of that product.

Guilherme Lago: Jorge, let me start with some comments, and then Jag, who is here with us can certainly share more about the reception of the customer base. So we've launched SIAPE, a consignado product, back in April 2023. We've launched FGTS in August 2023, and we launched INSS in October 2023. So the INSS, which is the largest payroll loan business, is not yet represented in our September 2023 books. And we have only now launched portability.

So we are in the very early days of the consignado journey or the payroll long journey in Brazil, but we couldn't be more excited, not only because of the customer reception to which Jag will allude to but also given the sheer size of the opportunity that we have ahead of us.

So payroll loans is the largest asset class within consumer finance in Brazil. It accounts for about BRL 650 billion of credit book and it also accounts for about 1/3 of the profit pool of the retail industry in Brazil. Our customers, if we stopped growing today, our customers account for approximately 40% of the total payroll loan books in Brazil.

So just fishing inside of our fish bowl, we have a tremendous room of growth. In the third quarter of 2023, consignado or payroll loans accounted for about BRL 300 million out of our BRL 9 billion origination, so super incipient to move the needle in 2023, but we are very excited with its ability to move the needle for us in 2024 and 2025.

Jag Duggal: Jorge, this is Jag. Thank you for the question. Let me just complement a few of the points that Lago made. As he said, we couldn't be more encouraged by the initial reception of these payroll lending products as we put them out in the market over the last several months.

If you look at the Net Promoter Score for secured lending products, they are at 78 versus a category average of 44 so well above the average. As Lago mentioned, Nu bank's customers account for 40% of the balances in the market. And in our originations in these very early stages of the product getting launched was less than 4%. So we expect a lot of growth in secure being driven by secured lending as we head into 2024.

The design of the products has been engineered work backwards from the customer's needs. We've built the product to be direct to consumers with a much simpler UX that is typical, 100% digital flow, that allows us to offer disbursement of the loan much, much quicker than what is typical in the market. And we're also able to offer the product at a very low price, versus what is typical in the market.

Our average right now is about 1.39% versus the market average of about 1.8%. And this is also a category where we found customers are very responsive to a competitive price and the price elasticity has been very, very high. So we see a lot of potential here, great early start, but a lot of room to go as we head into 2024.

Jörg Friedemann: And the next question comes from the line of Tito Labarta, from Goldman Sachs.

Tito Labarta, Goldman Sachs: First question, in terms of the provisioning levels, it seems as these as a percentage of loans actually came down for the first time in some time actually as far as back as I can see. So some good asset quality trends, early NPLs looked a little bit better, 90 days, which were lagging, still gone up a little bit. But just some thoughts. I mean, you mentioned as you grow NPLs can go up.

But in terms of where we are in the credit cycle, are you feeling more comfortable there to continue to accelerate growth and just how do we think about that cost of risk? Does this mean it's peak and maybe that could be a tailwind going forward? And how much of it was kind of impacted by sort of the FX impact on loan growth. I don't know if that had any impact at all. Thank you.

Youssef Lahrech: Tito, this is Youssef. Thanks for the question. So let me address your question with a couple of points. First off, as you know, we don't provide guidance on NPLs or otherwise, nor do we try to time the cycle. Our philosophy of credit is to originate and manage credit with strong resilient returns through the cycle. And I think our track record over the last 10 years is a good testament to that. But that being said, I would point out that what you see in our asset quality and delinquency metrics for both credit cards and unsecured lending is the net result of two offsetting forces. The first thing is you got older cohorts that we've originated in the past that are maturing and as they mature, they exhibit lower levels of delinquency.

The second effect is new cohorts and growth brings higher levels of delinquency as they are in the early part of their life cycle. And as Lago and I mentioned in the earlier part of the call, if anything, we see more opportunities to grow our credit portfolio in part through expansions, which will likely increase NPLs going forward. But that's very intentional, and we're very comfortable growing and accelerating that growth because we see those opportunities to expand. It will come with higher levels of returns and higher resilience that will more than offset those higher delinquency rates.

So at the end of the day, our objective is not to minimize NPL, it is to maximize NPV to originate a resilient high-return business. So it's our pass-through is entirely consistent with that objective, and we feel very comfortable growing going forward.

Tito Labarta, Goldman Sachs: That's helpful. And then following up, I guess, a little bit more kind of on the growth outlook that you see.

Maybe just in Mexico, if you can give any color, just looking at the regulated data, it looks like the loan portfolio is still not growing, but nice growth in deposits, clients. You mentioned picked up as well. I think Lago, you were in the press recently saying that we shouldn't expect Mexico to maybe be profitable next year. But any color you can give on the growth outlook from Mexico, both on deposits and loans into next year.

David Velez: Sure. Tito, this is David. So listen, we remain incredibly excited about Mexico. This is potentially as big of an opportunity as we have in Brazil. It's a very large market with an 11% credit card penetration. And we've seen a very good product market since we launched about 3 years ago. I think on the credit side, where you will see us doing forward in what you might have seen those doing historically is growing a credit product is never a straight line into the up and right. You will accelerate the times, you would de-accelerate times as we include new data sources, as with put new models into production as we evolve for methodology and we look at our test data. I would say, over the past couple of months, we are in that phase in Mexico where we are increasing significantly the capabilities of our models, and we're reading a bit the kind of the data that's coming out of our models after having gone from 0 to 1 of the largest credit card issuers in the country in about 3 years. So that's why you might see a bit of deceleration on the growth on the credit card side.

I would expect us to continue growing as we get more comfortable in certain areas that we read better data, especially around the impact population, which is the challenge as well as the opportunity that we see in Mexico is a bank arising 89% of the country. So on the credit side, I think we continue to grow fast, but I would say we are in a bit of let's invest more and reaccelerate over the next few months.

On the debit side and Cuenta has been a phenomenal success. We're super happy with the initial receivable of the product, which happened over a couple of months. We opened over 2.4 million accounts, over US$150 million in deposits in a couple of weeks. We even decided to increase the yield that we're offering in the Nu Cuenta in Mexico to double down on the market opportunity that we're seeing there in making sure that we really position Nu Cuenta as the undisputable best savings product in the country.

And I think with this move on the yield side, we are doing that. So we're very focused on winning this market and that's where we're willing to invest as alluded to breakeven next year. We won't break even next year in Mexico. We want to continue investing as we see this opportunity of growth, we'll invest even more. We're in an opportunity where we have a very valuable and earnings generating Brazilian business that can fund our growth into new geos. And so that's the playbook that we expect to execute in Mexico and in Colombia. And so just generally, we're really excited about what we're seeing, but it will not necessarily be a full straight line. We will accelerate at times, we'll take different speeds, we will go in one direction, we'll go in a bit of that direction, ultimately trying to become the leading, the top banking franchise in the country.

Jörg Friedemann: And the next question comes from the line of Mario Pierry, from Bank of America.

Mario Pierry, Bank of America: Let me ask two questions as well in the kind of follow-ups to the questions that have been asked. When I look at your slide on page 14, your loan book this quarter expanded by about US$600 million, while we had expanded by US$2 billion in the previous quarter. And then when we look on Page 16, you show that your origination jumped to US$8.9 billion from US$7.3 billion, so I'm wondering why, if you're originating so much more this quarter while your loan book wouldn't have expanded at a faster pace. So I don't know if there's any accounting issues there. So that's question number one.

Question number two is related to your slide on Page 26, the NPL trends. You clearly show, right, that you have lower NPLs than the industry, but in some of these charts, we see that the industry seems that NPLs have peaked for the industry. But when I look at your numbers, they are still rising, especially when I look at the 1 to 2 months of minimum wage, the 2 to 3 months. And also now you're seeing higher NPLs in the higher income brackets than the industry. So I would just like to hear your views here, like the industry seems to be peaking, you're not peaking yet. What could explain that? And why are you seeing higher delinquencies in the higher income segments? Thank you.

Guilherme Lago: Mario, thank you so much for your questions. Let me try to take the first one, and Youssef can eventually address the second one. So I think the two slides that you mentioned, the main difference that justifies the magnitude of growth is FX. So the slide 16, if you take a look at the title, is denominated in local Brazilian real currency. And when you look in slides, if you get on to Slide 14, that is denominated in dollars.

So if you take a look at the growth of our loan book, it would have grown by only 4% in nominal dollar terms, but once you do FX neutral adjustment, it goes to between 9% and 10% just because of the FX movements in the quarter. So we do believe that most of the potential discrepancy in growth pace is a result of the FX depreciation of the Brazilian currency.

Youssef Lahrech: And Mario, with respect to your second question on the NPL trends compared to the industry, you're correct in your observation, but that some of the segments of the industry seem to have steep and it's coming down. With respect to our trends, I'll go back to what I said a few minutes earlier, which is the net impact of older cohorts maturing and more growth being put on the book with higher levels of NPLs that's the result of that dynamic. We actually expect that dynamic, if anything, to continue into the future as we see opportunities to expand.

And then lastly, on the highest income band, two things I'd say there is historically, we haven't had a big delta either way up or down versus the industry. And where it actually matters the most is where you have a higher risk content. So the lower income buckets is where we tend to have a much bigger advantage in terms of sort of apples-to-apples NPL comparisons.

Mario Pierry, Bank of America: Okay. But as part of your strategy, it is right, like you're trying to eventually increase your presence among the higher income population in Brazil. Does that mean that you're trying to be a little bit more aggressive, and that's why that NPL could be a little bit higher?

Youssef Lahrech: No, I don't think the monetization or the getting deeper in wallet in high income would cause the trend we've observed on NPLs to deviate substantially. I think it's just, it's the way it's been historically.

Mario Pierry, Bank of America: Okay. And Lago, let me go back to the first part of the question, right? Because if we convert the origination to dollars, right, like I quickly look at the FX here, you originated about US$1.8 billion this quarter versus US$1.5 billion in the second quarter. So when you originated US$1.5 billion in the last quarter, we saw your loan book grow by almost US$2 billion. In this quarter, your loan book only grew US$600 million. So is there any change in the maturity of the loans you're originating or you originated previously?

Guilherme Lago: So Mario, there has not been any material change in the average duration or in the profile of the loan. I think the origination that you're referring to is related to personal loans only, which accounts for about 20% of our book more or less, right? So if you take a look on Slide 14 and if you do an FX adjusted GAAP, you will see the gap in growth is justified for us having an average duration of the personal loan book somewhere between 5 and 6 months.

Jörg Friedemann: As a reminder, I ask analysts to restrict yourselves to one question and follow-up so we can take all of the questions in the call. And our next question comes from the line of Geoffrey Elliott, Autonomous.

Geoffrey Elliott, Autonomous: Question on the deposit side. There was quite a big increase in interest expense and particularly interest expense on deposits in the quarter, I think up from something like $400 million to $460 million. I mean, I guess, the growth in the previous quarter was a factor. But can you just help us understand that? It looks like quite a big step-up in deposit costs this quarter.

Guilherme Lago: Thanks for the question. If I understand right, you're asking why our interest expenses have gone up and it's just not only the growth in deposits, but also the growth in our financing. So our operations in Mexico and Colombia are primarily funded through bilateral financings and syndicated loans. And they have also contributed to the expansion of our interest expenses.

Geoffrey Elliott, Autonomous: I was more focused on your break out of the deposit part and the financial statements and that part specifically US$401 million in 2Q, US$464 million in 3Q. So pretty big increase just on the deposit side.

Guilherme Lago: Yes. So I think the deposit size, the 3 months of deposits, I'm looking at the financial statements, it went from about US$430 million to US$463 million in interest and financial expenses, the interest expense on deposits which is largely a result of the growth in the sheer size of deposits that reached US$19.1 billion in the quarter. The other relatively jump you see in interest expense is going from US$29 million to US$74 million. That is the direct result of the growth in the financings of Mexico and Colombia.

Geoffrey Elliott, Autonomous: Okay. Numbers, I can see for 2Q look a little bit different, but maybe we follow up later. Thank you.

Jörg Friedemann: And our next question comes from the line of Thiago Batista, from UBS.

Thiago Batista, UBS: My question is about the high income segment. You already commented in the past that this should be a focus of Nu in the future. And my question is the first one, is it possible to really achieve this client without a banking manager or a branch manager or a financial adviser. Do you see these and other banks serving those clients fully digital? And also, if it's possible to maintain the same level of ROE in our Brazilian operation, let's say, 30% to 40% in this high income segment.

Jag Duggal: Thank you for the question. As we think about the high-income segment, which you are correct, is an important focus for the company. We think about it in two steps. The first step for context, this customer acquisition. And the second step is how do we monetize that customer base.

Our customer acquisition has made a lot of progress over the recent quarters. We now have about 60% of the high income customer segment as customers of Nu bank. And within the high income customer segment, we have the leading NPS in the market.

On the monetization side, it's a marathon, it's not a sprint, and we're still in the very early days of that process. We do believe that both the customer acquisition as we've already demonstrated, but also the monetization can be achieved with a high degree of customer satisfaction and customer happiness in a digital way.

We do intend to invest additional focused efforts to make sure that we're doing everything we can to delight the high-income customers, but we think that can be done following the template of how Nubank has operated over many years. So essentially in a digital-first manner.

The initial signs of monetization have been very positive as we build on our customer acquisition efforts. There are, we believe, three core components to having a compelling solution for high income customers. There is a payments and banking and account infrastructure that they find compelling. And on that front, we are the leader in terms of, for example, PIX usage, a well over 20% share as a transactional account.

On the credit side, we've made a lot of progress this year. We have for our Ultravioleta product, for example, being able to double the average credit limit. We've been able to roughly double the number of Ultraviolet customers. And we've also been able to double the purchase volume on the Ultravioleta credit card. And as we go forward, we are working on wrapping a bundled solution around that flagship credit card product of Ultravioleta.

And on the investment side, overall, we've seen AUC grow 50% year-on-year. So we believe we're making a lot of progress with high-income customers, getting them to try and start developing the habit of using our products. We have a long journey ahead of us, but we are confident in the direction we're going. We believe we can do that with strong unit economics and overall returns, and we believe we can do that with following the new bank template that we've had historically across the market with the digital-first approach.

Guilherme Lago: And just to complement, no, we do not expect that our share of wallet gain in high income, will dilute our margins and returns, as Jag mentioned.

Thiago Batista, UBS: No, very clear. If I can do a small follow-up. You said you commented a couple of minutes ago that it's possible to see a higher delinquency ratio together with higher margins or margins after provisions at least. This is how you guys see the PIX financing? Do you believe that PIX financing should bring higher delinquency ratio with higher after provision margins?

Youssef Lahrech: So Thiago, the way I think about the impact of PIX financing is just one additional way to enhance the product. It adds ARPAC per customer. It brings more interest-bearing balances at the customer level.

And so it just makes the unit economics of credit card more attractive, which in turn allow us to do a couple of things. One is to increase credit limit selectively, and also acquire more customers profitably that we might not have acquired before. So you kind of get the second order impact of being able to grow more at more attractive returns, albeit for part of that higher growth at higher levels of NPLs.

Jörg Friedemann: Our next question comes from the line of Pedro Leduc, from Itaú.

Pedro Leduc, Itaú: Going back quickly to the before mentioned accounting change that you had and the impact of the credit card balance. The reason I'm asking is because in our BRL estimates, it looks like the installments credit card product decelerated a lot and it's probably where this accounting change had most impact, so it probably grew if you can help us understand by how much. And the innovation products, PIX credit or Boleto, how relevant they are becoming or how much they grew this quarter but really trying to get all accounting constant growth figure for the installment credit card would interest figure for the quarter.

Guilherme Lago: Thank you for your question, Pedro. So let me recap. So the accounting change that we implemented with respect to credit card receivables and credit card payables in the third quarter was one whereby we are now representing those receivables and payables according to their respective present value. And what does that change?

So if you take a look at our financial statements in the credit card receivables, in the line that we call receivables installments, that is where you will see those numbers being affected. And in the liability side in where you call payable to the networks, is where you're going to see a corresponding impact almost offsetting each other.

With respect, Pedro, to your question about the growth of our interest-bearing balance, I would draw your attention to slide 15, in which you can see that for another consecutive quarter, our share of revolving balance has remained largely unchanged at about 7%. Whereas the share of the financing portion went from 19% to 21%. Most of this growth can still be attributed to the continuous growth of PIXand Boleto Financing.

Pedro Leduc, Itaú: Okay. And this slide, Lago, the 2Q was also restated for that accounting change, so it's comparable?

Guilherme Lago: No, no, no. It has not. Only we started to make this new accounting treatment only in the third quarter of 2023.

Pedro Leduc, Itaú: And the impact you said earlier was like US$150 million, US$200 million, so we can probably do the adjustments here to the comparable end.

Guilherme Lago: That's great Pedro, thank you.

Jörg Friedemann: And our next question comes from the line of Eduardo Rosman, from BTG.

Eduardo Rosman, BTG: I have a question, I think, to David. I think in a recent podcast interview, I think you talked about going beyond financial services, and that you would be dedicating an important part of your time chasing that goal. So can you share with us the potential opportunities there? Is this something that we should be seeing a couple of years down the road? Or can we expect something, let's say, in the short term? So I would be interesting to know what you're thinking about it.

David Velez: Yes, sure. Absolutely. So listen, I think when we take a step back and we think about what we're building and what we have built in these 10 years, we realized that with a $90 million and growing fully digital consumer base, which is one of the largest in Latin America already, one of the most valuable brands and highest NPS, a really data-rich ecosystem, very high engagement and an opportunity to do a lot of cross-sells.

This platform that we're building opens up a bunch of new optionalities ahead of us. These optionalities are going to take a long time to figure out, not necessarily something that happens very fast. We're actually thinking about as we think of our evolution around, effectively the first 10 years, we had to catch up to the big bets, right? We started with a simple credit card unbundling the entire financial services products. And then we were in a complete race to try to fill all the gaps that we had in financial services to be a priority. And we are getting close to parity.

Obviously, there are a couple of things that we think improve in certain areas, more insurance products, more investment products, very valuable proposition for high income. But in general, we're at least getting very close to the core products that somebody needs to have to choose us as their primary bank account.

And then we are thinking about the next 10 years on how we really change the game in the market. How we scale competition. And this is reinventing a number of several products, and this is using all of those assets that I mentioned specifically this base to provide more products and services to our users.

So we are here thinking about year 4, 5, 6, 7 from now. These are going to be generally low investments over the next few years. We're operating where we have a number of different start-ups within the startup, some of the products that we've launched already that we're growing, for example, marketplace, where we already have several million users already buying non-financial products and services in our app.

We are seeing very significant traction in Nu Pay, which is a new way to pay online, today with a number of different merchants. We are increasingly bringing the concept of the AI private bank where we see being able to play a significant role. And under those groups, there's a number of other initiatives that we are spinning out always in a way where they provide a lot of optionality. We like to invest little money upfront, let the teams run and then we start seeing product market feeling. We get excited about the potential in the brand, we invest more resources and energy into this.

So big answer to effectively tell you we're actively thinking about the next 5 years, but we're also actively thinking about the next 10 years. And we think the opportunity ahead of us is just much bigger than simply building one of the most profitable and efficient banks in the world, which we're getting close to being. And we want to make sure that we take advantage of the opportunity of some of the different assets that we are being able to accommodate and aggregate under one roof over the past few years.

Jörg Friedemann: And our next question comes from the line of Neha Agarwala, from HSBC.

Neha Agarwala, HSBC: The first question is on the credit cards. I noticed that the Stage 3 loans for credit cards has continued to rise for the last few quarters, and increased from 7.7% last quarter to 8.1% this quarter, while the cost of risk for credit cards as such has continued to decline quarter-on-quarter. So could you explain that dynamic while the cost of risk is declining and the Stage 3 loans continue to increase?

My second question is on capital. I noticed the increase in the RWA and that the Basel ratio has halved to almost 11% now. Given the large increase in the RWAs, do you see the need of sending some capital to Brazil next year? Or do you think the profit that is generated in Brazil will be sufficient to meet the capital requirements? Any color on that?

And lastly, and I know this is something which we don't have much clarity on today, but any update or any news on the pending credit card regulation would be very helpful.

Guilherme Lago: Thank you. Thank you so much for your questions. Let me try to start from the last one and then we'll go forward. So on the credit card industrial regulation. So those continue to be ongoing discussions involving multiple parties of the credit card industry, both issuers, acquirers, merchants, consumers, and the Brazilian Central Bank and the Ministry of Finance and soon the Ministry of Planning as well.

We have been an active participant in those discussions, and we believe we have the unique opportunity to promote a more ambitious and positive or overhaul in how credit cards are structured in Brazil. And we are very encouraged by the last discussions that we have had with the parties, and we believe that we will probably have more clarity about this when we have our next earnings call. Very soon for us to actually draw any high conviction outlook on how this will unfold. But we are working very hard together with the industry and the regulator to have a positive outcome that allows us to have a much more balanced product going forward.

To your second question, I think you related to the increase in capital. I believe it's important to highlight that in 2022, the Brazilian Central Bank put forward a new regulation, which is usually referred to as Resolution 200, which basically harmonize the capital regulations of payment institutions and financial Institutions. And as a result of that, as you can see on section 32 of our financial statements, you will note that the Brazilian Central Bank has enacted a gradual implementation of this new norm, whereby the minimum capital adequacy ratio starts at 6.75% in 2023 goes to 8.75% in 2024, and then finally, to 10.5% in 2025. And also payment institutions that control financial conglomerates will now have to report consolidated capital adequacy ratios.

The result of all that is that we have a capital adequacy ratio in Brazil of 11%, whereas the minimum capital requirements today it's 6.75%. So we have a fairly relevant buffer in Brazil. And in addition to that, we have US$2.3 billion of excess liquidity at our holding company. So we are super comfortable.

It's unclear to us whether we will ever need to capitalize our Brazilian entities going forward. It will largely depend on the growth pace of our credit book. But we are very comfortable that with the business plans that we have for Brazil, Mexico and Colombia, those are fully funded and fully capitalized and the earnings that we generate in Brazil, plus the excess capital that we have at the holding company will more than suffice to fund all of this plan for the foreseeable future.

Youssef Lahrech: Neha, this is Youssef. So with respect to your first question on what is going on and the dynamics of various stages and provisioning, I would refer you to note 13 in our financial statements, which contains all the breakdowns and the details stage by stage. You can look at the coverage ratios and the migration across buckets.

But overall, I would summarize it just very simply by saying that stage 3 tends to largely correlate with 90plus past due delinquency rates. So it kind of mirrors what is going on there. And as I mentioned earlier in the call, as we write off credit card loans in our Brazil credit card portfolio for 360 days.

So what tends to happen is you enter a 90 plus and then for several months those loans accumulate. And as they accumulate and go further and further in delinquency stages, what tends to happen is coverage ratio increases. And so you see just those mechanics playing out.

Jörg Friedemann: And our next question comes from the line of Yuri Fernandes at JPMorgan.

Yuri Fernandes, JP Morgan: I have a question on fees. We see interchanges to be 75% of your total fees, but we don't see other fees growing and you have many initiatives, right? You have the investment platform, you have the insurance, you have the program of NuSócios, when should we see the fee line growing because the interchange are growing, but it's growing like 25%, 26% year-over-year and we still don't see, so just trying to get your expectations on those non credit-related business.

Guilherme Lago: So Yuri, thanks for the question. And look, we do have this portfolio of business throughout the company, which we classify in three archetypes. We have the anchor business, the growth business and the moonshot. And the anchor business, which we classify as the credit card lending and our banking accounts are doing extremely well. And their profitability is basically overshadowing the very positive results and performance that we are having in more emerging businesses. But you pointed out some of the businesses that we have today that are actually performing fairly well.

I would highlight the investment business, whose assets have increased by over 50% over the past 12 months and the number of customers have doubled. So we do expect that over the coming 4 to 8 quarters, we have much more visibility on the more growth in moonshot business that will progressively emerge into our new anchor business over the next 3 to 5 years.

Having said that, however, if you take a look at the profit pool of the Brazilian retail industry, about 70% of the profit pool is still composed by consumer credit, namely credit cards, unsecured personal loans and secured personal loans. So it should not be a surprise that as of today, the majority of our world revenues and gross profit margin also comes from some of those consumer finance products.

But I believe as the new business that we have, namely investments, marketplace, insurance, continue to emerge, we will have more and more visibility of their financial and nonfinancial performance in the coming future.

Jörg Friedemann: And our next question comes from the line of Craig Maurer from FT Partners.

Craig Maurer, FT Partners: So two questions. One, the activity rate showed strong improvement. Can you characterize what were the underlying drivers to that? Was it the growth in primary banking relationships or was it the launch of payroll?

And secondly, you're talking about going down the credit quality ladder, which could drive delinquencies a a bit higher. I'm curious about your thoughts on how that might affect the portfolio, if Brazil goes into another soft period regarding credit, should we expect to see a more significant rise in losses as a result, and how you're thinking about that with regard to provisioning.

Guilherme Lago: Craig, thank you so much for your question. Let us take this in steps. So the first question is about the activity rate and I will draw your attention to slide 10, in which you see that activity rate has basically continued to go up from about 82% to now closer to 83%. And notwithstanding the very strong growth of our customer base. I think that is largely explained and correlated with our progress towards primary banking relationship.

If you take a look at the chart on slide 11, which is the following one. The chart on the left indicates the primary banking relationship cohort analysis that we present every single quarter. And as you may note, we now have almost 60% of our active customers being primary banking relationship customers. And you can also note that we are getting to more than 50% faster and faster over time. For the 2018, 2019 cohorts, it used to take us about 15 months to get there. Now it's taken us less than 12 months to get there. Why is this happening? I think it is happening as a result of external factors and internal factors.

External factors is that as consumers where we operate, embrace real-time currency picks, embrace digital banks more and more, they more easily embrace the business model of Nubank that has become even more pronounced during and after COVID.

The internal factors is actually the chart that you can see in the center of this slide, which is, as we launch more products, as we launch more features we earned the right to be the primary banking relationship of more and more customers.

So if you were a customer of the bank back in 2017, you had only one product, credit card. Arguably, it was very hard for you to give our primary banking relationship to customers with credit card only. But as we launch bank account, PIX, investments, insurance, marketplace, Nucoin, we have a much more compelling value proposition, a much more complete set of products and that foster primary banking relationship that foster engagement.

We do not see this trend stopping or declining on the contrary. We think that we will continue to launch best-in-class products, disruptive solutions. And with that, we will not only sustain high levels of activity, but we will also foster the continuous expansion of those activities.

So I'll pause here, I will pass the floor to Youssef to address your second question related to credit underwriting.

Youssef Lahrech: Craig, on the credit expansions and what does that do to the credit book in the event of a downturn. So just as a reminder, we underwrite, obviously, seeking to maximize NPV, but also we underwrite for resilience. What does that mean practically? It means that every additional loan we book every new customer that we onboard we want them to be profitable and above hurdle returns in the event of a downturn.

So specifically, when you look at a cohort level, we underwrite our cohort such that they're able to withstand the doubling of losses and still be NPV positive. So that gives us a lot of resilience and a strong ability to withstand variability and the ups and downs of the cycle. That's one thing.

The other thing I'll point out is thinking about various segments within the credit spectrum. Having a high-risk segment doesn't necessarily mean it's going to be a higher volatility segment in the event of a downturn. Those tend to be sort of very dependent on what kind of down cycle we're in. We've seen in other markets, more mortgage holders deteriorate more than the average.

We've seen small businesses sometimes deteriorate more on the average. So it really depends on what kind of cyclical dynamic you're facing. And again, we take the approach of wanting to have through the cycle strong, resilient returns in everything we underwrite.

Jörg Friedemann: And this concludes the earnings call for the third quarter. And the name of Nu Holdings and its management team, I want to thank you all for your participation in our conference call today. Our IR team is fully available for any additional follow-ups, and we will be responding to questions and via webcast over the coming days.

With that, we finished our earnings call. Have a good night. Thank you.

Operator: The Nu Holdings conference call has now concluded. Thank you for attending today's presentation. You may now disconnect.

***