Camila Stolf: Good morning everyone, welcome. We are here at our headquarters in São Paulo, live, for our third quarter 2023 earnings teleconference.

Today we will divide this event into three segments. In the first segment, our CEO, Mario Leão, will discuss our strategy and the main highlights of this quarter. And ensuing is, Gustavo Alejo, our CFO, will provide further details on the figures that shaped our results during this period. And finally, we will have a Q&A session, where you will have the opportunity to interact directly with us.

I would like to remind you that we have simultaneous translation available. Therefore, you can choose whether you want to follow this broadcast in Portuguese, English, or in the original audio.

I would also like to inform you that the presentation you are about to see is already available on our investor relations website.

Now I pass the floor to Mario Leão who will begin the presentation.

Mario Leão: Hello, good morning everyone. It's a pleasure to be here with you again, in a slightly different format. I hope you enjoy it. We continue to evolve. We are here live, it's 10:02 a.m.

It is a pleasure to have the opportunity to share our third quarterly results, along with Gustavo, along with Camila, and our entire Investor Relations team.

I would like to start here on slide 4, where I basically highlight the most relevant points of the quarter, which we will then detail in the following slides. Of course, I will also discuss the numbers and the outlook for this year. The most important highlights are here, to my right, to the left, for those who are looking at the screen.

The first major point is this: we have been talking to you for quite some time at conferences. I recently attended an important conference in New York with Gustavo and Camila, meeting with various investors, throughout this one year and nine months, we have been discussing the diversification of our portfolio.

This is a very important point. We have built our major growth cycle until 2021 with a disproportionately large emphasis on credit, particularly low-income credit and markets. And we clearly saw last year that we needed to have a much more balanced portfolio, with a multi-year investment, actually a permanent investment, that takes many years and we will do it in funding and also in the fees business, which was already relevant, but needed to be even more so. This quarter, we are providing quite clear demonstrations that the strategy is being executed, we already see progress and we will continue to be very strong in these two dimensions of our diversification.

The second major highlight is that we continue to have a very positive evolution in asset quality. We can see, I would say, virtually across all metrics, whether it's NPL formation, coverage ratio, cost of credit, or the actual result of loan loss provisions, all of them evolved, I would say, materially in the quarter, this, obviously, makes us happy because it's the consistency of something we have been working on and discussing with the market in a patient and consistent manner for the past six quarters now, we are consolidating what I had already commented on last time, that we have turned the corner and clearly have the ability to resume growth, which we will do intelligently, focused, selectively, but with an undoubtedly more constructive bias going forward will show some data ahead.

We, in terms of net interest income, have once again seen an evolution in the market NII this quarter. We will discuss this a bit more with Gustavo later on. In the customer NII, we have a very positive outlook, although the number in the last quarter showed a slight decline, this is clearly justified by the way we have selected over the past one and a half, one year and nine months, to build our growth with customers with higher ratings and, obviously, with products that have a lower cost of credit.

And finally, we continue with an important productivity and efficiency agenda. I have emphasized this every quarter. It is part of Santander's culture, you will see the numbers, and it is important because it means that we can continue investing in growth without compromising the overall financial statement.

Speaking of profit, you have already seen the net profit. It has shown significant growth in the quarter. We are obviously working to ensure that this growth continues to happen. We will see this over time, but we have a quarter-over-quarter growth of 18% and an ROE that improved by almost two percentage points. So, we achieved R$ 2.7 billion against the previous quarter, just above R$ 2 billion, and our ROE rose from 11% to 13%.

In terms of priorities for the year, here to my left, to the right for you, are three main highlights that are consistent with everything we have been discussing. Huge focus on the customer dimension. You will see the presentation talking about customers more and more. Of course, everyone talks and should talk about it, but Santander's obsession with the customer has never been higher. With that, we are not in a race for the number of customers, the number of customers is an important data, no doubt, but we are less concerned with the ranking of the number of customers and much more about how we'll monetize, how we'll bring them closer, and how we'll attain more principality than ever for these customers. This is our big strategic agenda and everything we are doing in relation to technology, innovation, focus on priority businesses, from the customer's perspective, is all related to this.

I will now provide you with some additional insights. On slide 5, I detail this customer agenda a bit more. We have two slides that heavily focus on the customer dimension. First, to highlight once again, our great obsession: the pursuit of principality. In this quarter, we have a very interesting data point, underscored here, which is the 3% growth in loyal customers during the quarter. Here at Santander, we set a very high bar for what we call a loyal customer. We are constantly reviewing and challenging ourselves on how to improve, but in line with the consistent metric we have seen for several years, which is a tough metric for loyalty, we are growing at a rate of 3% quarter over quarter, which is data that makes us happy.

Why is this growing? Due to several vectors on which we have been working simultaneously and in a highly disciplined manner. One of them is a huge focus on CRM. We are redesigning – I have already been discussing this with the market – we are completely redesigning our CRM pipeline. We have been seeking, with what we have, to keep improving and to make increasingly greater customized offers. We are moving away from the one-size-fits-all approach that the market often adopts. We are customizing communication and connecting the customer far better at different touchpoints with the bank. And at the same time, we are working on a major system evolution in how we will handle CRM. We are actively reviewing our value proposal for all segments. I will emphasize more on the next slide about Select, our high-income proposal, which is growing fast.

We have good news: we have the product and service offerings we need. We don't need to develop any products and services, I'll mention one shortly, but our offering is quite broad. So, our agenda has been much more about simplifying the offering than expanding it. And with the simplification of the offering, we gain efficiency, agility, the ability to serve customers, and obviously, we gain customer loyalty with this.

The NPS that is here, in your view, to the right, at the top, we have constantly talked about NPS in all quarters. And this quarter, we have quite a few good things to comment on. Across all channels and all segments, we have evolved and, in some cases, I highlight our remote channel with a year-over-year NPS evolution of 32 points. And our business customers, the NPS that we still want to evolve a lot – this is the first time we talk about the NPS for business customers: 39 points, is a number that has a lot of room for improvement, yes, but this number was below 30 and consistently between 20 and 25 for a long time. We make progress year over year, by 19 points, and obviously, our commitment is to seek much higher levels than that.

To conclude, we have some revenue consolidation elements that I highlight below. The main one, which we will cover in detail later, is the quarter-over-quarter growth in fees of nearly 7%, which demonstrates that volume is increasing significantly, which shows that transactionality is growing quite well and, as a result, we are attracting customers to negotiate and transact here. This is highly relevant.

Here, underscoring two more points, I commented on high income. We have been redesigning our high-income value proposition for a year now. And I have consistently commented with you because we are making progress, advancing the way we intended. Our business is well aligned.

And Select has some data. Its NPS also increases. It has a customer base that grows by almost 50% year over year. We go from 674 thousand to almost one million customers. Remembering that a year ago, I made a public commitment when we were at 670 thousand customers, that we would hit one million Select customers by the end of the year. Everything indicates that we will reach our target, and we will beat it by a comfortable margin.

We also have a strategy for credit in Select, which is growing significantly. Therefore, our accounts here are well on track. Of course, everyone is looking at high income with a lot of focus, and they should. But we believe that we have differentials in our investment service model: AAA, which I will talk about shortly. Our store model, which has spectacular stores spread throughout Brazil in the right places. Our 24/7 customer service. And now the offering is complete. And this here is a spoiler, but I am already launching it to the market. We are going – in a few weeks – to launch our international account offering, called Select Global, with this brand as a matter of fact, which we will finish testing with Friends and Family over the next few weeks and, in about a month, make a big launch to the market. And with that it will be complete. Then there really won't be anything missing. We will have full integration for customers not only from Select, in their international account through the Santander app as a whole. And with that, we will have completeness, and of course, bring the customer even closer.

On slide 7, we'll zoom in on the topic of investments. In investments, I highlighted some elements to show how the strategic focus that we decided to give since last year is starting to bear more material fruits. And this, of course, begins to reflect in the income statement. Strategically, we decided that we needed to change the bank's funding mix. We never had a liquidity issue, of course, but we had and still have a significant portion of our funding coming from the so-called wholesale market, whether from large corporations or institutional clients. There is nothing wrong with that in terms of volume, but there certainly is from a pricing point of view. We are strategically and structurally changing our funding mix, shifting from a predominantly wholesale to a majority in retail. The progress in retail, especially among individual customers, but also in SMEs, is substantial. Here we are presenting a data point. Of course, we want much more, we will strive for much more, but year-over-year, is already showing a significant figure. If we go back to 2021, the number that is here to your left, we had a negative net inflow cumulatively in 2021. So we turned it positive last year and we increased it considerably this year. And obviously, we are working hard to achieve much more.

Within retail, there is an emphasis on AAA, which is our strategy, our response to the advisory theme. AAA is a business that is here to stay. It has been a little over a year since we launched it. It is still consolidating, but we already show, whether through NPS or through net inflow per advisor in the quarter, that we want, of course, much more. Whether it is through volume and, obviously, through the customer experience, which NPS also measures, we got the model right. It is the model that has the lowest load, that is, the lowest coverage ratio of advisor per customer, or customers per advisor. And with that, we can give much more attention, provide proper advisory, with the customer's perspective in mind. We are not thinking, obviously, about the result for the bank. This is a consequence of a satisfied customer, who brings their volume from the competition to us and who keeps what they have with us. And then, of course, we generate results. So, AAA is an agenda that is progressing quite well.

At Toro, which we consolidated a few months now, by acquiring the remaining 40%, the numbers speak for themselves. There has been growth of over 100% year-over-year in net inflows. Its NPS is extremely high – Toro consistently ranks in the top two positions in NPS, as measured by third parties. Therefore, Toro continues to thrive as a business. Now, with the 100% acquisition of Toro, we will be able to consolidate several technological components and a highly digital and truly agile way of operating, because it is a fintech company that has become one of the largest digital brokers in Brazil. We will bring a great deal of technology, extensive knowledge, and the talent of its people to Santander as a whole.

And to conclude here, to my left and to your right, our Private Banking. I have been talking about Private Banking more and more as well. We are having a record year in Private Banking, I would say in all dimensions: record in funding, and look at the progress here; record revenue, record results, and the NPS remains way up there. So, Private Banking is an essential part of our franchise. It caters to both individual and corporate clients. We do a lot of this cross-selling of Private Banking with our wholesale banking services. There is still a lot more to be done, but the progress here is clear.

Here on slide 8, I place more emphasis than I have in recent quarters on the card business. Obviously, the market is very curious: "how are you dealing with this? Are you aware that your active customer base has decreased and that your market share has dropped?" And the answer is yes. In the last conference I mentioned, I spoke very calmly to the market that when we decided to slow down before the rest of the market, at the end of 2021, we knew that the deceleration would end up being proportionally greater in some products, especially clean products, that is, the uncollateralized products. In practice, we slowed down more in cards and in personal loans than in other products. So much so that in other products, we are working and even gaining market share. And here, we knew that for a year, a year and a half, we would end up reducing our active customer base, on our own decision, and therefore market share.

Now is the time for us to start rebounding. This quarter, as I mentioned in the previous one, we have turned the corner. In cards, we are showing that we are starting to sell a lot more cards than we had been selling, including in the second quarter and throughout last year. We were coming from a base of 100 in the third quarter of 2021, where we were selling, well, a certain number of cards on this basis. We reduced it by more than half, I would say by almost a third, in the past quarter, and we are already returning to a proportionally much higher level. This does not mean that we have reopened our vision, our appetite, as we were operating back in 2021.

This means a much better understanding of our customer base. All the investments we are making in CRM, which I have already mentioned, in hyper-personalization, this is an important term. We have been working extensively on hyper-personalization, that is, on hyper-understanding and knowledge of the customer, their consumption dynamics, their income dynamics, and their market data. So, everything that we have been working on in terms of data usage, data architecture, and the connection of all this, is aimed at better serving the customer. A large portion of this increase, this acceleration in cards, derives from customers who were already with us, and a portion, yes, consists of new customers that we are capturing, primarily through our payroll business, which is a major pillar of our strategy.

So, the card business is growing again. We are very pleased with that. This, of course, already appears in the fees account, as Gustavo will show, but it will appear more and more, both in fees as well as in net interest income. All this without compromising credit quality, as you can see here to the right side of the slide. The other comment, which is also new, that I am bringing here, is that we have a highly relevant loyalty business. We have spoken little about it, which is Esfera. I imagine that many of you watching are familiar with it, as you are customers. Esfera is a spectacular experience itself. It is connected to the Santander macro ecosystem, but it is a business per se, growing by almost 100% year-over-year. It has a strong connection with cards, and every time we are able to sell Esfera and cards, the card volume is much higher. In fact, the volume here, within the same customer base, has increased by 15% year-over-year. So, we decreased the active customer base and market share, but we increased the average spending per customer by 15%, which is not less. And when we factor in Esfera, this multiplies even further because the customer feels even more connected to us, and they transact with Santander. In addition to the card transaction itself, they make purchases and sales using points.

On slide 9, I bring back the focus on companies. This is another key point of the strategy. I have talked extensively about this recently in New York. And ultimately, what we are saying here is that we have two major businesses within companies, but they are increasingly interconnected in common components. What are the common components? Technology. The vast majority of products are common, and the way we want to position ourselves and the value proposition is also common. We call this a single business unit. So, as an organization – and this is not easy in a large bank – we have been thinking more and more horizontally. We are considering the business unit as a whole. We truly have an ambition, which I have mentioned here, to be the bank of choice for companies. We really aim to be the bank that businesses think of, and then they call Santander. Well, they 'call' us in several different formats. Among corporate customers, we have the natural customization of investment banking and some more tailored, international transactional services. We are the leading international bank in Brazil, or rather the major Brazilian bank with a global presence. We also benefit from that.

We continue to be number one in the FX ranking and number one in local trade finance. We are in the top 3 in the overall capital market, including debt, equity, and M&A. This shows that we are here to stay on this more strategic side. We are making significant investments in talent – this is a people business, indeed. And we are very pleased with how this is shaped up.

We continue to experience significant revenue growth in the corporate segment, and even more so in SMEs. I have been speaking with analysts and investors about our tremendous focus, even greater, on significantly growing our SME business. We already have good data to show you regarding portfolio growth. We'll see this in a bit. So, SMEs are starting to respond. We had a first half where we were moving sideways – again, consciously. We were cautious, yes, in the first half and throughout last year because we wanted to see how the CDI would unfold at its current level and with the economy not exactly booming yet, how this would reflect on the chains where our SMEs are located. We made the necessary adjustments, and we are already back to growth in this quarter. Moving forward, over the medium term, we aim to double this business. That is the size of our ambition.

Speaking briefly about our strategic businesses, we have had since a year ago, in the third quarter of 2022, when I spoke to the market, this continues to be a growth story. There's no compromise on that. We will manage a complex portfolio, just like the entire market is doing. Meanwhile, we picked the levers and have been growing them. Not linearly, as that would not be wise, but we are growing strongly in all the ones we have chosen to grow.

This quarter, I will discuss three of them: Consumer Finance, which is back to witnessing significant origination growth. We were originating R$ 8.8 billion in the second quarter, and we have achieved nearly a 20% increase in origination during the third quarter. This, of course, generates fees, because we know how to manage spreads, fees, and insurance well at the Consumer Finance business. This makes the customer NII in this large business, where we are leaders with a 22% market share, start to appear. Hence, the acceleration that we made from the middle to the end of the quarter will obviously be more evident in the fourth quarter than in the third. This will be great, and we are not satisfied with just R$ 10.5 billion. We will strive for more. Thus, Consumer Finance is a business that we intentionally moved somewhat sideways in the first half. At the turning point, as I told you three months ago, we are regaining our appetite for growth. It is a business that we know quite well and believe will continue to perform increasingly better.

In payroll loans, here in the middle, we have consciously been engaging with the market. We are gaining market share. It's one of the products we have chosen to focus on. It is a product that truly drives loyalty, a sensitive product, in which the market is highly competitive. We believe that we know how to do it well, just like many other players, but we have managed to outperform the market growth without compromising on quality in any way. We have excellent indicators, both in the Consumer Finance unit and in cards. Therefore, the control part is in very good shape, which makes us comfortable to continue growing and outperforming the market.

And to conclude, it's small here, but in no way less relevant, another major focus of ours has been the Agribusiness sector. Agribusiness has actually been a major focus of Santander for the past five or six years now. We have been gaining several market share points over the years, but one year ago I publicly set an ambition to reach a portfolio of R$ 50 billion. To be clear, agro products, agro customers sometimes transact with non-agro products, such as 4131, etc., which are not included in this calculation. So here we are referring specifically to agribusiness products, such as CPR, etc. We are almost there. So here I don't even need to give a spoiler. It seems likely that we will surpass R$ 50 billion in the fourth quarter. The question will be how well we enter 2024 and, obviously, we will continue to grow.

To conclude my part, speaking about technology, we could talk for hours here because it is at the core of our strategy. It is very much at the forefront of the time I dedicate, as well as the entire senior leadership. It is not just a topic for the technology area, known as F1rst, as we call it, but I will highlight a few points for you. First, in a few years, it doubles or triples, depending on when we look at it, the volume of transactions. It's even scary. We are talking about 6.8, almost 7 billion transactions that we processed here in 9 months. It represents a much higher volume than in any comparison period, given 2, 3 or 4 years ago. Thankfully, we have a clear understanding in our culture of the efficiency dimension, knowing how to invest and perform well. As a result, we have managed to reduce transaction costs by half. Otherwise, obviously, our income statement would be feeling it, and it's not.

And to the right, we have several elements that show what technology has to do with the customer agenda, principality, and experience. They are closely related. Some data: we ranked number 1 on Down Detector during the quarter. For those who are not familiar with it, this is a public website that records incidents, bugs, failures, etc. We were number 1, which shows that we are focusing well on how to have and provide the best journey for our customers. We have a highly recognized app. Anyway, this is a nice data point. We already have 94% of our operations in the cloud. This represents a growth of 2 percentage points in the quarter. So, we are almost there at 100%. We expect to reach 100% in a few more quarters. Therefore, we have a significant portion of our operations in the cloud, which means agility, capacity, and cost efficiency. We have almost a quarter more implementations year over year. This means that we are becoming increasingly agile in delivering to the customer what they ask from us, improving journeys, and fixing things. And 86% of this happens automatically. And we are maturing in a profound way what we call business domains, which are our horizontality, our ability to no longer be defined by organizational charts, closed structures, and silos. We have horizontality among products, operational platforms, and technology for each of our major businesses. There are 27 business domains, and we started this year. This is maturing in a super accelerated way and will greatly benefit the customer dimension because it is the customer who defines how they want us to organize ourselves in the business domains.

With that, I will pause for Gustavo to continue with the numbers, and I will return for the Q&A later. Thank you.

Gustavo Alejo: Thank you, Mario. Good morning, everyone.

Let's start with the performance of our net interest income. We have achieved a total NII growth of 2.1% in the nine-month period, with an increase in the product NII and portfolio growth with quality as expected. This quarter, we experienced a favorable growth dynamic in asset volume throughout the months of the quarter. Given the improved performance of funding, which I will comment on shortly, we achieved a better funding result.

The loan growth composition and our increased selectivity since the beginning of 2022 had an impact on spreads during the quarter, resulting in a 20 basis points drop in spread and causing a 1.3% decline in the customer NII in the period.

In market operations, we continue to show gradual improvements in our ALM positions, due to the Selic rate cuts. This quarter, this improvement was partially offset by the lower trading result. We expect this trend of gradual improvements in market NII to continue over the coming quarters, and for the customer NII to perform better as the portfolio grows.

Now we present the evolution of our loan portfolio. We had a better performance in retail this quarter and, adjusting the consumer portfolio for the sale of our stake in Banco PSA, which occurred in August, as previously mentioned, we would also have seen growth in this portfolio of 1.4%, as highlighted here. In individuals, in line with our plans, we had a good performance in mortgage, payroll, and rural loans, which has been recurring in the past few quarters. I see the card growth, with a 2% increase, as very positive in the quarter. In auto loans to individuals, we grew by 2.6% in the quarter. This was the best performance since December 2020, excluding the sale of our stake in PSA. This performance is a reflection of the strategic partnerships already discussed. In SMEs, it was possible to resume the growth of our portfolio, thanks to the good loan quality indicators, both for the short term and long term. The performance in the quarter showed growth of 3.1%, a level we haven't seen since the third quarter of last year, when we grew due to government programs. Currently, 67% of our portfolio of loans to individuals, including Consumer Finance, is collateralized. This represents a 2.5 percentage points increase over the past 12 months.

On the next slide, we provide further details regarding the composition of our balance sheet. We continue with our strategy, as Mario mentioned, of expanding in funding. And we can see growth in our funding. I highlight a 10% increase in demand deposits and a 6% growth in time deposits for the quarter. The year-over-year evolution is also quite satisfactory, especially due to the participation of the retail segment, which is strategic for us. Total funding increased by 16% over the past 12 months and 4.4% in the quarter, as mentioned. Our loan-to-deposit ratio has shown continuous improvements in the quarter and is at the lowest level in its history, reinforcing the strength of our balance sheet.

Here, I highlight the evolution of fees, as Mario commented, which is part of our strategy, growing by 6.5% in the quarter. We had a positive performance and we can see it in virtually all fee lines. The top performer was insurance, benefiting from the launch of new products and specific campaigns that took place during this period. Additionally, we had a good performance in consorcios and current accounts, as you can see here. Particularly in current accounts, this performance derived from higher transactionality among business customers, as Mario noted. Thus, SMEs growing in loans and fees is a positive sign. Credit operations performed better due to auto loans, while cards also showed good growth in the quarter, reaching 3.2%, which is twice the growth rate of the previous quarter.

Let's now move on to the evolution of our asset quality. The best vintages are gaining relevance, positively reflecting on all our indicators. Our allowance for loan losses decreased by 6% in the quarter, and the quarterly cost of credit hit its lowest level since the first quarter of 2022. NPL Formation is already showing a normalization, ending the third quarter at 1.05%, with provisions again above delinquencies, which increased our coverage ratio to 230%. Regarding the renegotiated portfolio, we continue to experience a decline relative to the total portfolio, about 30 basis points in the last 12 months, reflecting the effectiveness of all adjustments made to our risk models in recent months.

Now, I will bring you a little more detail about our delinquency indicators. As expected, they continue to show favorable trends. The 90-day ratio improved by 30 basis points, both in the individual and business customer segments. The 15-to-90-day ratio saw a 20-basis-points improvement, with a positive effect from individuals. The business portfolio showed a slight move in the short-term indicator. This is an isolated occurrence that does not cause any concern whatsoever.

Moving ahead to slide 19, we can observe the behavior of our expenses, which grew by 0.9% in the quarter, tightly controlled, and 7.5% cumulatively over nine months. Personnel expenses were impacted by the collective bargaining agreement in recent months, while administrative expenses remain under control. This quarter, we are providing an expense breakdown, distinguishing between those incurred on products and business expansion, and recurring expenses. The first category encompasses expenses that will support our future growth, such as, for example, software amortization and third-party commissions to boost sales. And we continue with rigorous control over administrative expenses, seeking improvements in this figure every day. This number improved by 70 basis points in the quarter.

And to finish off, I would like to talk about our income statement. As a consequence of all the dynamics we have discussed thus far, our pre-tax profit has grown significantly by 32.2%. Our net profit, as stated, has increased by 18% and ROE has advanced to 13.1%, which demonstrates that we are gradually recovering profitability, a trend that we expect to continue in the upcoming quarters.

Our BIS ratio increased by 60 basis points to 11.2%, primarily due to the entry into force of Resolution nº 229, which went into effect in July and benefited our CET 1. With that, I will stop here and pass the floor to Mario for his final remarks. Mario, back to you.

Mario Leão: Thank you, Gustavo. Here, another minute to wrap up our messages, which ultimately consolidate what we have been discussing in this first half hour. Four key takeaways:

I'll start with the consolidation of the portfolio management strategy. We had already stated emphatically in the third quarter that we were comfortable, that the peak had passed. I declared this formally. So, it is clear that the peak had indeed passed. We only know that the peak has passed afterwards, not during. In the second quarter, we already saw this and in the third quarter, we clearly consolidated our strategy of managing a portfolio for 21 consecutive months in which we have grown significantly, like the entire market in 2021, which proportionally took more from our results. Aware of this, we worked in the most agile, fastest way possible to digest it and now, in parallel, we are working on growth across different facets. So, the first major message is the consolidation of the strategy, which makes us very confident that we are already showing you clear growth rates in important portfolios. And we will continue to consistently pursue this in the coming quarters.

The second message is that in the businesses where we chose to grow, we are growing. We have remained, throughout this entire time, a growth story. A growth story does not mean that the bottom line grows every quarter. There is no linearity, especially in a large company, in a large sector like ours. But we continue to grow where we wanted to grow and where we knew we needed to slow down or even decrease, we did so smoothly, maturely, and consciously. And in some cases, it is time to resume, and we are already showing the first signs.

The third major message: the customer. We have a huge focus on profitability and loyalty, on how to bring in this customer in a broader way and at the same time diversify our portfolio. This is crucial and I will talk about it for many years with you. We need to have credit, no doubt, we are a bank. We like and know how to extend credit. But even within credit, we need to diversify among different portfolios, do much more with middle income and high income, as I showed in Select, do much more with SMEs. Continue doing well and focusing on profitability in wholesale. Here it is not about growing the balance sheet just for the sake of it, nor is it a balance sheet race. And within credit, diversify. And outside of credit, we also have a funding agenda, whether on-balance or off-balance, and fees.

And to wrap up, we must obsessively pursue principality - this word is strong, but that's how we operate here - obsessively pursue principality. But truly going beyond the speech itself, which is important, examining the details, examining the journey, examining the experience. Listening verbatim to the NPS, observing research, engaging in constant conversation with the customer, and being humble enough to listen to them more and more. Knowing that we have a lot of things to fix, but focusing on what we need to prioritize and fix with discipline. Knowing how to say no to what needs to be said no to, so we can emphatically say yes to what matters to the customer.

With that, I pause. Thank you all. It's a pleasure to be here again, and we move on to the Q&A. Camila, please.

Camila Stolf: Thank you very much, Mario and Gustavo.

We are now going to start our Q&A session. From now on, you will have the opportunity to clarify any doubts you may have. Just click on the hand icon that appears on your screen. You can ask your question in Portuguese or English, and we will answer in the same language.

So that everyone has an opportunity to participate, I would like to request that each individual ask only one question, after which they may ask for clarification.

Looking here now, our first question comes from Bernardo Guttmann from XP. Bernardo, good morning, welcome.

Bernardo Guttmann: Good morning, Camila, Mario, and Gustavo. Thank you for allowing me to ask a question here. I would like to further explore the topic of portfolio quality and growth. The bank delivered a significant drop in delinquency, and the lower range between 15 and 90 days indicates a continuation of this trend. It seems that you have managed to stay ahead here with good portfolio quality management, but on the other hand, the pace of loan origination still appears a bit timid.

So, it would be nice to understand a bit more about growth priorities, whether it makes sense to increase appetite for less collateralized lines with higher spreads. Mario commented on the recovery in cards, but it would be nice to understand the broader strategy. What are the most interesting income brackets here, for example? Thank you.

Mario Leão: Bernardo, thank you. I'll start, and Gustavo feel free to add anything.

The question is great and legitimate, above all. We are observing a trend that has persisted and is even accelerating in the last three quarters in managing this portfolio that we have been referring to as old and new vintages. You see that we don't even break down old and new vintages anymore, because I think we have reached another stage of maturity in managing our portfolio. Without a doubt, while tracking the progress every day, we challenge ourselves on how we can translate this into a greater appetite.

I was recently asked quite a bit, the IR team, 'so are you going to reopen? Does the fact that you're selling more cards mean that you're going to emulate the growth you had in 2021?' We are not looking to emulate the growth we had in 2021. As I said, since then, we have gained a much deeper understanding of our customers. This is extremely important. So, two years and two and a half years later, we believe that we have a better understanding of the customer and the market dynamics. Everyone here has matured, just like the entire market.

I would summarize the strategy as follows: we will continue to seek growth in the strategic businesses that we outlined precisely in the third quarter of last year. Regarding credit, these were the most collateralized businesses and SMEs, as well as corporate clients. We will continue this growth. We demonstrated in this quarter an acceleration in SMEs. We showed a reacceleration in Consumer Finance, which is one of these strategic businesses. It is a collateralized business, with some challenges, of course, in terms of resumption, but with a new legal framework, this should improve. These businesses, you will see us evolving quarter by quarter. Again, it won't be linear, it doesn't mean that I am obligated to show a determined percentage growth every quarter, but directionally, clearly, we will do it.

What we are going to do more, and the question is very good, is that we are going to be more open to less collateralized portfolios, and here I will emphasize. You mentioned cards. I myself highlighted the topic of cards for the first time in a long time, but we will also look at personal loans within what makes sense, which we are constantly testing. We will also look at overdrafts in a more constructive way.

So I would say that this clean credit combo, which focuses on topics that are relevant to the customer, means that I am not including products just to boost the account, whether it be net interest income or fees. We will do more, but with a better understanding of the customer, aiming to focus on customers who are already in-house. It's not that we don't want to deal with customers who are not already part of our institution, but we will prioritize those who are on the payrolls we manage, those who are not on payrolls or are ex-payroll, who we are familiar with their income dynamics, consumption dynamics, and credit dynamics. And of course, we will continue to welcome customers who are not currently connected to the ecosystem.

One final thing we are going to do is this: we are going to increasingly focus on connecting the different points of the Santander ecosystem. We indeed have a broad ecosystem. We have a credit recovery company called Return, which is doing very well as a business and can be a source of customers. The healthy customers we recover, we can bring them to the parent bank and operate with them. We have the Esfera business that I mentioned. We have a huge ecosystem in automobiles that we can plug in more and more.

So, the answer is yes. We will continue with collateralized businesses. We don't want to slow down now, but we will be more constructive on net interest income to achieve greater growth in uncollateralized transactions. This will happen and will become evident over time. We are growing some portfolios more than NII, I acknowledge that, but part of it is because this resumption occurred during the quarter. So, the portion from SMEs, from Consumer Finance, we will see their full impact on net interest income in the fourth quarter, along with the acceleration that we continue to do in the fourth quarter.

I hope I have answered your question.

Bernardo Guttmann: Thank you, very clear.

Camila Stolf: We now have our second question, which comes from Mario Pierre, from Bank of America. Good morning, Mario.

I think we're trying to connect here on Zoom, I'm not sure if you can hear. Mario is here. Mario, good morning.

We can't hear you. Now we can, now we can.

Mario Pierre: Congratulations on the results.

I would like to understand a bit better. You are showing that the appetite for credit cards has increased, and you are gaining market share again, but there is a lot of uncertainty regarding the profitability of the sector, given the regulatory changes that may be coming. I wanted to understand how you are perceiving these changes and what you expect from the regulator.

Mario Leão: Mario, great question. Thank you for the opportunity to comment on this, it is a common topic. And I will try to provide a brief version here. If you feel that I haven't answered everything, feel free to comment in a follow-up.

We are actively participating in these discussions. I am personally involved if I may say so. I mean, this is a topic in which CEOs have become engaged, and it's good that this is happening because what banks, what issuers have been doing throughout the year, I would say since February, is promoting a technical debate.

We are not defending our business model. Many of us have, directly or indirectly, an acquiring business. So, it's not about promoting the issuer and harming the acquirer. Ultimately, we want to build, through the regulator, Mario, a new balance. A truly sustainable balance.

Today, we have an unstable, unsustainable balance, which obviously has as a side effect a disproportionately high revolving interest rate, especially when we annualize it. We know, it doesn't exist on an annual basis. You all know well, but the perception is negative, the headline is negative. The government is concerned, and it is right to be concerned.

What have we been pursuing since February? And now, I would say that this agenda is finally gaining momentum and converging, especially due to the 90-day regulatory deadline, as you noted.

We are increasingly provoking, in a positive sense, a technical debate and showing that the evolution of this issue must go through a balance, yes, of the revolving interest rate. We do not take this point off the table; this is a relevant point. It has to decrease, it has to decrease significantly. But the entire credit card financing structure also needs to change. This involves interest-free installments, which is a Brazilian peculiarity, and is important for consumption. Thus, it is important for employment and income. However, it must be gradually balanced so that the economy is not so dependent on it. We have never proposed that it be terminated or eliminated. We have always proposed a phased approach. It seems that the discussion is heading in that direction, Mario, which is good. And as a counterpoint, we propose not only reducing the revolving interest rate, but also introducing what exists worldwide, the so-called buy now pay later, which is installment payments at highly competitive interest rates.

So, we are moving from a highly unbalanced structure where the issuer takes on the risk for the entire portfolio and charges from a small portion, to a structure where the revolving credit, which is the actual source of financing, pays less. The entire chain is financed through installment payments. The entire chain achieves a balance between shorter interest-free installments, perhaps more phased, decreasing over time through the years. And installment payments with interest, for those who actually want to pay in installments, will be available from certain installments by all issuers.

So, this agenda is evolving and is far from being concluded. But we are present at the table and believe that the regulator, which is the Brazilian Central Bank, will converge towards some framework that addresses this. That is what we hope for, and we have until the end of the year to discuss it.

We believe it will evolve. Going back to the beginning of your question, we are not concerned about: “now that you are resuming card sales, there may be a regulatory element.” There may be, but we believe that regulatory evolution will be positive rather than negative. Therefore, we are quite confident with the calculated and calibrated growth we are pursuing, within the rating ranges we wanted and with the customers we wanted.

I hope I have answered your question, Mario.

Mario Pierre: No, it's great, perfect. Thank you.

Mario Leão: Thank you.

Camila Stolf: We now have our next question coming from Eduardo Rosman, from BTG Pactual.

Rosman, good morning. Thank you for the question and thank you for participating.

Eduardo Rosman: Good morning, everyone. Congratulations on the numbers.

My question is about payroll loans. I believe Santander has been gaining relevance in this segment for some time now, through Olé, which has now been fully incorporated. More recently, there has been a stronger focus on this segment, showing stronger growth.

We saw a major digital bank announcing interest rates on INSS of 1.35% per month yesterday, which is much lower than the market. I think their argument is the fact that they do not need to pay commissions.

Santander still has a greater exposure, via correspondent banking, than its peers. So, I would like to understand a little bit how you expect to compete here and how to retain customers, how to make them loyal. What other offers can you provide to keep the customer in-house? Thank you.

Mario Leão: Thank you, Rosman.

This is a really good question about a business that we have actually been discussing with you for a year now. We are growing rapidly, of course, always keeping an eye on risk metrics and everything else. I will split the answer into a few blocks.

We have a proportionally larger presence than our competitors in what we call private payroll loans. We have thousands of agreements with companies. We have a large payroll database. We have achieved this over the years; it's not a recent sprint. Through the years, we have built a very strong franchise in private payroll loans. Private payroll loans give us quite a bit of pricing flexibility, because the caps that apply to the public sector, especially INSS, do not prevail here. We are able to hold bilateral negotiations and we have been implementing what we call digitalization, which means allowing Santander customers who have their payrolls with us to take out payroll loans literally with one or two clicks on the Santander app. And in that very second, in full digital payroll loans, as we call it, the credit is granted. So, our experience in private payroll loans is top-notch in the industry, and this is quite relevant in our portfolio.

We also have quite a bit in governments, generally speaking, municipalities, states. We have large payrolls in municipalities, states, as well as some state-owned companies, and then there are also the INSS ones. The point you mentioned occurs in all cases, but it is more predominant in INSS and in some government payrolls that are shared. However, in the INSS, it is highly relevant, and you are correct. Here, we historically have a smaller market share than our competitors, and we have identified this, and started to work on the growth that you and the market have observed over the past 12 or 18 months, which has been proportionally very focused on INSS.

What have we done differently? We looked at our store network, which is an asset that we have and that digital banks respectfully do not have because their model is different. We have redesigned which of our stores are specialized in serving INSS customers. We actually did geolocation and CRM work. We cross-referenced data using ATMs, teller inquiries, etc. And in the last 12 months, we redesigned. We assigned a number of stores that were not specialized to serve INSS customers, while others that we considered to be specialized no longer operate. Thus, in practice, we have a much more efficient use of our store network. This means that, Eduardo, we don't rely on correspondents as much as we used to in the past.

With the integration of Olé, you put it well, not only did we acquire 100% of Olé a few years ago, but this quarter, we are finishing integrating systems. The gains we will achieve in terms of efficiency, productivity, bottom line, cost reduction, and also the ability to respond to the customer will be significantly higher.

And on the side of correspondent banking, which is indeed a significant part of our origination, mainly through Olé, a little bit from the bank, we are going along with the INSS caps that are being progressively reduced. We think this agenda is a bad one, fundamentally anti-customer. We have been trying to explain this to the government, but so far, not as successfully as we would have liked. We are essentially redesigning how we remunerate these correspondent banks to keep the business viable. So, the best answer I can give you about this is: whatever we do, we will continue doing it profitably. We are not in a race for market share. I have been growing, but I have been growing while winning. In fact, we have been growing in payroll loans, as opposed to contracting, and this must also hold true for INSS. Therefore, with that, the reward equation for correspondent banks becomes increasingly complex. So, this is indeed an issue, but it is more of a concern for correspondent banks rather than, I would say, the banks that ultimately bear the risk.

I hope I have answered you.

Eduardo Rosman: It's great. Thank you very much, Mario.

Mario Leão: Thank you, Eduardo.

Camila Stolf: Now, we have a question from Yuri Fernandes, from JP Morgan Bank. Good morning, Yuri.

Yuri Fernandes: Good morning, Camila. Good morning, Mario, Gustavo.

Congratulations on the growth in demand deposits and the portfolio quality. My question is regarding your product spreads. We are still seeing a decline in product spreads, around 20 basis points quarter over quarter, but you have commented a bit about taking on more risk, growing a bit more in SMEs and Consumer Finance. And I think demand deposits, the shift towards more retail deposits, should help you a bit on net interest income.

So, my question is this: what are your expectations? Whether this is correct, whether net interest income should start improving a bit going forward, and if so, by how much and when does this net interest income start to improve for the bank? Thank you.

Gustavo Alejo: Directionally, that's it. You are correct. I mean, that's the composition we expect. Obviously, the speed of portfolio growth will dictate how much we can recover spreads.

SMEs bring a positive aspect in this regard. And, obviously, the entire deposit base, both demand and time deposits, as well as the growth in volume, also contribute to this line.

Now, it is not possible to determine when - the day, the month, and the hour - but what we are doing is exactly what you mentioned. Directionally, that is the path. So, with price discipline, without losing price discipline, it is about incrementing - or this ratio - in a satisfactory manner. So, that's exactly what we're doing.

Now it depends a bit on the movements. We saw demand for SMEs. We advanced in SMEs. If the demand continues, we will advance further. And then, this portfolio balance completes itself. So, this trend now, more or less, depends a lot on our dynamics, which are going very well. Another factor is the market dynamics, which somewhat depends on the demand we have, both in credit and income, join the available money for investment in the bank. But along these lines.

Mario Leão: Just to add, Yuri, because the question is really good. I wanted to complement two points from Gustavo. First, we have already discussed a bit here in the Q&A about the topic of cards. So, everyone is familiar with the dynamics.

You start selling cards, then the card is activated, and then the customer starts buying. At first, virtually everyone is there paying. So, you have an unfinanced card portfolio, which is good to have, of course. And ours grew quite well in the third quarter. Part of it, after the second or third quarter, becomes a financed portion of the card, which has a high margin. So, part of what you are talking about is already almost contracted, but it is natural that it takes some time.

So, when we resumed card sales, Yuri, we weren't setting an agenda for 2023. Let's put it this way, thinking about the calendar, it was a 2024 agenda. Again, without aiming for: “I want to do the same as I did in 2021,” when I managed to sell hundreds of thousands of cards each month. We are not seeking this benchmark, but rather to resume it. However, it takes a few quarters to start impacting again.

The second comment I was going to make is about corporate customers. Perhaps it will come up in the questions ahead. There are still many left. “But in the corporate segment, you had a small drop in the second, a small drop in the third?” Yes, we are not here to reduce portfolios, that's not it. But in corporations, in particular, the ROE theme is highly relevant. And with the fixed income capital market coming back, we benefit from it on the other side. We are one of the leading distributors in the market, and it is very healthy for the market to rebound, however, prices converge. So, we were even more disciplined during this quarter. You remember that in the first quarter, we had very strong growth, quarter over quarter, in the corporate segment because we saw a closed capital market. We were agile, not to brag. We had limits, we were quick to transact with customers. We achieved significant growth, which has helped us in NII for the year. And in the following two quarters, the ROE theme was more relevant.

I don't think we are going to continue having -0.6 or -1. We are working towards regaining growth, but we won't pursue growth just for the sake of it. We are looking at achieving an ROE that we want to deliver to the market, gradually recovering to levels closer to our historical performance.

Just to add on. Thank you, Yuri.

Yuri Fernandes: Thank you, everyone.

Camila Stolf: We now have a question from Gustavo Schroden from Bradesco BBI. Hi, Gustavo.

Gustavo Schroden: Cami, thank you. Good morning, Mario. Good morning, Gustavo. Thank you for the opportunity. Congratulations on the improvement in delinquencies.

I think it is fairly evident here for everyone the effort you have put into being more selective. I would like to think a bit more about the strategy and business composition. Although you mentioned retail, some lines in consumer lending which are expected to bounce back soon, I also felt that you were stressing the high-income segment quite a bit.

I would like to hear from you if you think that the retail story, especially the lower-income retail, open sea, that everyone surfed – do you think it has been somewhat drained out? I think people came out a bit hurt from this last cycle and now there is a trend for us to see banks trying to seek a greater balance, particularly in middle and high income and also SMEs, which you talked a lot about.

I would like to understand a little bit how you guys are perceiving this and whether we should expect a better balance going forward in this composition between low income, middle income, high income, and even SMEs there, which sometimes gets confused with the retail part.

If you could explain a little about the bank's perspective on this, I think it would be interesting for us even as a way to understand the current dynamics of the financial system, which I believe is undergoing a significant transformation. Thank you.

Mario Leão: Nice, Gustavo. Thank you. Great question. This gives us the opportunity to delve into a very important point of the strategy.

So, I did talk about high income. I have been talking about high income for the past three quarters. I know that I am not the only one, I acknowledge that. I even said: it is natural that the market is looking at this. I think it's great because it raises the bar for everyone and high-income customers get increasingly better served.

I commented on the high-income segment because, one year ago, we decided to focus on it. We realized the need to quickly adapt, as it was a counterpoint to our ongoing management of the middle and low-income portfolios, particularly the low-income segment. It's not that we didn't have loan loss provisions in the high-income segment; the high-income segment also has LLPs, but the recovery speed has been much better there. So, to summarize, the high-income segment is a business that we consider to be on track. This doesn't mean that we have nothing left to do, but it is in good shape. The value proposition is aligned, the store positioning is aligned, and the advisory service is working extremely well. We are able to engage with the customer 24x7 the way we desire, and the NPS is one of, not the only one, but one of the indicators that proves this.

What are you doing regarding the middle and low-income segments? This is a very important question, and we will discuss it further with you throughout the upcoming quarters. We are dedicating the time we spent a year ago rethinking the offering, positioning, and differentiation for the high-income segment. We are currently doing exactly that, as we speak, for the middle and low-income segments. I would say that for the middle-income segment, we already have a very clear vision of how we are going to proceed. In the middle-income segment, we have less of an issue with the cost to serve, Gustavo, and more of a positioning issue, a footprint issue, of how to deal with people, bricks, and also the digital aspect, of course. The middle-income segment encompasses a little bit of everything. It includes customers who take out loans, who invest, customers with credit cards, who travel, and so on. There are various subgroups within the middle-income segment. Nevertheless, we are very close to aligning this vision within our model, and we will discuss it extensively during the fourth quarter results announcement. Throughout 2024, I can assure you that this will be a relevant agenda. It has always been a significant business for us. Our middle-income segment is Van Gogh, which is our brand. It has always been a highly relevant business. It has faced challenges in the past two years, of course, but we have a very clear vision of what we need to do.

The low-income segment, which we refer to as Especial here, is, I believe, the real challenge for us, and I think for the market in general. I don't have all the answers, but we are asking ourselves the questions. It all starts with the questions. We have been asking ourselves these questions for quite some time now, and we have already found some of the answers. The most obvious answer, which everyone knows, but it's good to mention anyway, is that we can only have a profitable low-income, Especial segment in our case, if we drive the cost to serve way down. So, there is no answer...

10% lower, 20% lower is not enough. Thus, if we don't actually redesign not only the value proposition, but also the brand positioning and differentiation. But if I don't deal with the infrastructure that serves, which is not only related to the store, but also to the store or branch, I have to consider the chain as a whole. So, in the low-income segment, having a digitalization, automation, and streamlining agenda has to be brutal. And we are precisely on this agenda, Gustavo, writing down exactly what this means. Therefore, also for next year, we intend to introduce a new positioning and a new way of serving the low-income customer, a completely different one.

If you ask, is this an industry issue? I think so. I believe that we all had our growth cycles in the low-income segment, until the moment came when the low-income segment, in particular, had five, six bank accounts, three or four active cards. There was simultaneous lending from us, other incumbents, the digital players, sort of all together there, throughout 2020, especially 2021. This customer became heavily indebted and became a more problematic portfolio for all banks in the following years. And I don't think it will go back to the way it happened in 2021 because it has been proven to the market, Gustavo, that this customer has a limit on income capacity and, therefore, a limit on their ability to generate top line for the banks. Hence, the model in which credit fosters a substantial amount of income for the financial system, I don't think that model will come back, because that customer doesn't have the capacity to generate that income for the system.

So, the answer has to come from knowing how to capture income through principality, through experience, etc., but with a much, much lower cost to serve base. I'm talking about drastically lower. And we are exactly on that agenda. I hope I have answered your question.

Gustavo Schroden: Perfect. Very clear, Mario. Thank you and congratulations on the work in delinquencies.

Mario Leão: Thank you. Thanks again.

Camila Stolf: We will now go to Thiago Batista from UBS for his question.

Thiago Batista: Good morning. Good morning, everyone.

My question is regarding Santander Brasil's efficiency. When you make some comparisons, you can see digital banks with much better efficiency.

Santander itself, in this quarter, achieved 42% efficiency, a slight decrease, but still well above the bank's historical average, which is around 40%. This is likely due to margin pressure, which I believe reduced revenue and impacted the bank's current efficiency.

But what caught my attention is when I look at Santander's efficiency in IFRS, disclosed by Spain, the bank is at 35% efficiency versus the group at 44% efficiency.

I'm talking about nine months here, so the efficiency is much better than the group. Thus, we have different dynamics.

There are players that are doing much better and even the controlling entity of the bank's consolidated financials is faring worse than Santander Brasil. How do you see the efficiency dynamics in the medium term? Is it possible to achieve significant efficiency improvement over the next two to three years?

Mario Leão: Great question. Thank you.

It’s true that from time to time we face this challenge. However, Brazil reports efficiency from the perspective of Spain, or IFRS 9, differently. There are several percentage points. I acknowledge that it can bring confusion, but the metric is fundamentally accounting-related.

BR GAAP itself is not yet the same as IFRS 9, so there is a divergence, but the direction always moves relatively together. But focusing here on BR GAAP, you are right. We have an improvement of 70 basis points in efficiency. Of course, we are pleased because the direction is correct, but we are still in the range around 42% and below.

So, without intending to give guidance, but directionally, what we are undoubtedly seeking is to return to the high 30% range, that is, to get back to the 30% plus level. It will take some time, because obviously it is a numerator and denominator equation. But the answer I gave to Gustavo just now, Thiago, covers the expenditure element of this equation that we will have to solve, otherwise, again, our low-income segment cannot be a business generating a negative pre-tax profit. And, obviously, today it does.

So, how do I bring this to breakeven? And then, how do I turn it into a profitable business? Not in a sprint, in a positive credit or macro cycle, but in a sustainable way. I can only do this by knowing how to generate top-line, but even better, by knowing how to control expenses. So, the expense agenda that I just mentioned will help the efficiency ratio because it is the only way for me to respond as to how I make each segment that I cover profitable and sustainable. And this is a premise that I have in the market that each segment has to be profitable over the cycle, in the medium and long term.

And then there is the revenue side. Well, this topic is already shown in specific fees and some aspects of net interest income, although overall less than we would like, of course. But when we see the direction of the customer NII and the direction of the market NII, which continues to decline and in some time, will clearly turn positive again, we will have an improvement in the top line. An improvement that will continue to be gradual and, again, a discipline in expenses and an even stronger obsession with reducing expenses in the low-income segment. With this, efficiency, the jaw – I would say revenue and expenses – will start to open again and efficiency will naturally decrease.

So, we do aim to return to a level of efficiency in BR GAAP, as we had a few years ago. We are working towards that. It is a consequence of a strategy, of management, but it will happen as a derivative of an improvement in efficiency, undoubtedly.

Thiago Batista: Very clear. Can I ask a quick follow-up question? You talked about SMEs throughout the presentation, that it is a focus for the bank. The bank would like to double its size.

SME is a very broad segment. What would be the focus? More on the low-end, more on the S, more on the M? What would be your focus in this expansion?

Mario Leão: When I talk about growing, I am always speaking directionally, and I have even mentioned a few times: growth cannot be linear. So, I will answer your question in the same manner.

We divide SMEs here into three large blocks, the smaller ones, but which have a huge volume. The vast majority of our 1.3 million SMEs are in this segment of companies. And even within this segment of smaller companies, we are looking at how to further subsegment to be even more customized, even more assertive in the offering. This is what we are currently doing for the fourth quarter. We will talk more about this in the next earnings disclosure, at the end of January.

So, we are going to seek growth in three subsegments: small SMEs, medium SMEs, and large SMEs. This does not mean that all of them will grow at the same time. Medium SMEs already have a behavior somewhat similar to middle corporates, which are in our wholesale bank. And some banks actually segment these companies as wholesale. Anyway, this is a detail, but they behave more towards this side.

The medium-sized SMEs and small SMEs, particularly the medium-sized ones, demand greater credit attention because there you often provide more clean credit. So, collateral structure, looking at the working capital cycle. We moved sideways in medium-sized SMEs during the first half, on purpose, because we wanted to manage this portfolio well. And now in the third quarter, we started to feel comfortable. We continued to grow steadily in large SMEs and also in small SMEs.

Thus, the answer for each one has to do with the macro, it has to do with competition, of course, it is not a profitability issue. The way we manage the SME portfolio is highly profitable. Therefore, we prefer to grow at the pace that we can, as much as possible, while maintaining the profitability equation. We have ROEs – we do not disclose ROE for the portfolio – but our ROEs in the SME business are quite high. I hope I have clarified this for you.

Thiago Batista: Thank you.

Camila Stolf: The next one now is Daniel Vaz from Banco Safra. Hello, Vaz, good morning.

Daniel Vaz: How are you, Camila? Thank you for the opportunity. Good morning, Mario. Good morning, Gustavo.

I will expand a little on Thiago's question regarding efficiency, considering the branch experience with that Work Café. I would like to understand from you, if you could share a bit with us, the economics of having a branch like a Work Café compared to having a more traditional branch.

I think it will be difficult for us to get all the details given your strategic side, but I would like to understand some key figures here. If you could share with us and if this has already shown positive results that you are reaping.

And then I'll ask a follow-up question. The question is a little different, so I'll leave it here for you to answer. Thank you.

Mario Leão: Thank you.

You mentioned Work Café, and I will expand a little on the topic of physical distribution and stores. Last year, we started a movement that we had not made until then. Up until then, through 2021, we had made an effort to significantly expand our number of stores. We truly had room to grow, whether in cities or neighborhoods where we were not present, or in new cities. We expanded the bank's reach quite a lot, and it was very important for us to do that. We have no regrets. However, looking towards 2022, we shifted our focus in favor of efficiency and a new service model, in which the physical store, partly due to the pandemic, became less relevant proportionally to what it was before. Digital, as everyone knows, accelerated tremendously. And we, in conjunction with that, invested in digital to improve our services.

Then, last year was the first year in which we consciously decided to close stores, fully equipped with technology, using heat maps, georeferencing, CRM, and extensive communication with customers. We closed more than 150 stores last year, and this figure, this rate, has doubled this year. So, between last year and this year, we will have closed approximately 460 stores compared to what we had in 2021. Therefore, this is not a small movement. Not only have we never done anything similar before, but proportionally, it is quite significant. It represents more than 20% of our store network.

This obviously helps answer Thiago's question, and yours, regarding efficiency. And we, in essence, are doing this in a very conscious and scientific manner because we see that those customers who still go to the store can be served with very close proximity, as long as communication, CRM, and everything else are well done.

Thus, we are now at a point where we are looking at the concept of stores in a different way than we did in the past. This doesn't mean that we are going to give up on them. We mentioned at the beginning about the concept of a Digital Bank with Stores, aligned with the group. We strongly believe in having the right stores at the right locations, whether it is to serve, cover the flow, or cater to the micro region surrounding the store. We have, of course, positioned stores where there is a wealth of small businesses, services, etc., as well as individual customers, whether it be for brand positioning. Some stores have less traffic, but they are important for brand positioning. Work Café is one of these examples, connecting with your question.

So, Vaz, what do we have at our Work Cafés? First, we don't have many of them yet. We don't have dozens, but we have a few strategically positioned Work Cafés, and we are opening one or two more to continue testing the model. I would say that we have a higher investment per store, obviously. Just step into one to see. These are nice stores that cost more. And we have been measuring its payback in a very scientific way as well. Some aspects are not as measurable because they relate to the topic of positioning, having some flagships, perhaps. For those who are here in São Paulo, we have reopened our Select flagship store at JK with Faria Lima, which is perhaps the most beautiful store we have. And we will have a few more of these. So, we will choose carefully where to have flagships. Work Café is a different concept from a flagship, bringing in the flow from the café, which, by the way, is great. And there we have the concept of a little co-working, and we try to engage non-customers, mainly in a digital way, through Wi-Fi and everything else. So, we are still investing in this. The data is good, but I won't tell you: “so I'm going to transform, or a significant portion of it, to create Work Cafés in Brazil”, as Santander, in a way, has done in Chile and some other geographies. But we are going to refine the model.

Daniel Vaz: It's crystal clear. I would like to move on, maybe, to the next question for Gustavo. We see your profitability indicator for the new vintages, the Loss Absorption.

So, I wanted to understand: I think this quarter it had a slight drop. But when we look at the Consumer Finance financing line and the payroll loan portions, they increased. So, it seems to us that some other lines, a little less collateralized, the riskier lines, still have this slightly more difficult profitability.

Is it too precipitous to assume this, or is there actually another line that is drawing more of your attention here?

Gustavo Alejo: No, we did not see any performance change from the second to the third quarter. Therefore, there was nothing material in terms of performance across all ratios, including the L.A.

So, there isn't any significant difference, to tell you the truth. No, I don't think it's possible to affirm what you mentioned. Everything is under control, to be honest. We can see the control in the rollovers and in the LLP dynamics. And there haven't been any major or minor adjustments, or material ones, in the portfolios due to performance. So, the performance is exactly as we expected. Thus, honestly, there aren't any major changes.

Mario Leão: But it is also true, Vaz, that we are constantly testing what we call borders. We are constantly testing the borders of how far we approve, from where we no longer approve.

So to speak: “'hey, can I pull the border a little closer here, because the L.A. is good,'” and we are happy with the L.A. level, as Gustavo said, but sometimes, especially in a personal loans, the clean loan, which is obviously the most sensitive clean product, we are constantly making adjustments, but they are just fine-tuning. We are not making any major moves.

In fact, I would say that in 21 months we have not made any major moves in appetite, +90% of it occurred at the end of 2021, and the remaining were minor calibrations.

Daniel Vaz: Great. Thank you very much and congratulations on the results.

Gustavo Alejo: Thank you.

Mario Leão: Thank you.

Camila Stolf: The next question comes from Mateus Raffaelli from Banco Itaú BBA. Hello, Mateus.

Mateus Raffaelli: Good morning everyone, thank you for the question, which falls under the topic of portfolio growth, which for Santander is expected to close the year at around high-single digits.

Looking ahead, volumes should be aided by potential cuts in the Selic rate, but we still see highly leveraged households, unresolved loan quality issues in the corporate sector, and there is likely to be competition in the capital market as well.

So, in this context, I would like to understand how you are envisioning portfolio growth for next year. What are the main challenges that the bank sees? Can we expect for 2024 growth above, similar to, or even more modest than what we have seen in 2023? Thank you very much.

Mario Leão: Thank you, Mateus. You have presented me with a challenge here, as we do not provide guidance, and you are asking for a semi-guidance, a soft guidance. However, I appreciate your question because it is a good one.

Without a doubt, we will not pursue a more modest portfolio growth in 2024 compared to 2023. So, starting with your last point, we will not be seeking more timid growth. Of course, there are many factors that we do not have control over, such as demand, competitiveness in the capital market, macroeconomics, and regulation. Therefore, we do not have control over all factors, but the ones we do have control over do not point to us having more timid growth. So, by definition, I'm telling you that we will strive to grow equally or, ideally, even more. We have a solid capital base and, without false modesty, a very good command of the portfolio. We are originating new vintages exactly where we want and we are finishing, if I may say, managing the portfolio of old vintages.

So, there is nothing that comes up before us like: “guys, you have to be more conservative in 2024 than you were in 2023.” This is not a discussion we have in the executive committee, in the risk committees. It is not.

What we do have, as I said before, is also very important to calibrate, Mateus. We are not seeking growth for the sake of it, because I prefer to be here with you every three months and at conferences showing clear growth. So, it's not going to be linear. It's not going to be linear, meaning it won't be the same in all portfolios, and each quarter will be slightly different from the others. But directionally, we will seek growth. We will aim to grow a few percentage points per quarter, without a doubt, on average. And we will strive to grow with a focus on profitability and without building future loan loss provisions. Some loan loss provisions will be there, because our business involves risk, of course. But we want to build future loan loss provisions that are calibrated with the risk appetite we have and with the profitability we want to deliver to the market.

So, directionally, yes, we will grow, with a bias towards growing more than we have been growing, with an even more diversified portfolio, which is an important point that I want to emphasize with you. And we will also pursue the equation of low income with credit, but in a way that is proportionally less dependent than what we did on our first major growth cycle up to 2021.

I hope I've answered your question, Mateus. Thank you.

Mateus Raffaelli: Very clear, thank you.

Camila Stolf: We will now switch to English for our last question with Tito Labarta from Goldman Sachs. Hello, Tito.

Tito Labarta: Hi, Camila. Thank you. Good morning, Mario, Gustavo. Thanks for the call and taking my question.

I guess my question is on the profitability of the bank. You know, we did see an improvement in the quarter, but you're still benefiting from a relatively low tax rate, you know, a more normalized tax rate of 30%. You still would be around 10% ROE.

So just to think, I assume you expect it to improve from here, but what do you think is the sustainable level of ROE, and what are going to be the main drivers to improve it from here?

Mario Leão: Yes, thanks, Tito. It's a very good question. So, Gustavo, please feel free to add.

So, directionally, as we're talking a lot of things about the direction we're taking, for sure, as you said yourself, we're looking at improving the teens to the, from the low teens, almost 10%, depending the way you look, even close to 10%. We published 13.1%. It's better than last quarter. It's not enough, obviously, we want to get much better as we continue to progress portfolio results, and obviously the whole client experience surrounding all this. So, we're targeting to get back to the mid, and then high teens, as we've been delivering for many quarters up until 2021.

Again, it's a very different mix, Tito. I'm sure you know that. So, it's not going to be the same kind of ROE that we delivered in 2021, for example, which was our record ROE, the 21% plus. We believe we need to get to the high teens. We will work to get to the high teens. We will get there. Eventually, it's going to take, you know, quarters, but we're going to get there.

There's no target number which otherwise we'll fail. We'll get to the mid-teens first, then the high teens. Then we're going to work even more towards getting back to the 20%, 20% plus number, and this is going to be the progress we're aiming for.

So, I touched profitability in many aspects in my speech and Q&A today, you noticed. So, we're going to grow with profitability. We're going to get the low-income, mass-market segment to become from unprofitable as it is right now, and it's obviously hurting our P&L, to break-even soon enough, and then profitable.

And all that together with middle-income, high-income, SMEs, and then the wholesale business as a whole, which is already obviously profitable, all that together will point in the same direction. That's very clear to management. It's very aligned with the group. The group is very focused on ROE as well, which is good because we have the same agenda. So, capital, profitability, choosing the clients to do, to sell, to securitize, all that is at the top of our agenda, so we're going to get there. It's a matter of time.

Tito Labarta: If I can ask a follow-up. Along those lines, maybe a little bit more backward-looking actually in this case, going from that 20-plus percent ROE you had a few years ago to today, and I know you're dealing with high interest rates, the credit cycle, I mean, you appropriately slowed down loan growth ahead of that, but if you go back, the sharp decline that we've seen the last couple years, do you think it was all cyclical, just where you are in the credit cycle, where interest rates are?

Do you think the competitive dynamics of the industry have overall changed that have maybe caused some of that? Just to think about what those dynamics were that caused that compression to compare today to where you were back then.

Mario Leão: Yes, it's a profound question. I believe, Tito, as many things, it's a combination of different factors, different things that happened all together.

Yes, competition increased a lot up until 2021. It kept increasing, but everyone of us accelerated their credit portfolios back in 2021, the incumbents, the digital banks. That is part of the problem, because we all accelerated, and we all did it together without knowing, of course, of each other.

So, I believe some of the model changed, and I touched on it a few questions ago. So, I think the model has changed from a low-income mass market, which is hugely profitable for the whole industry. I don't believe that's still going to maintain, because it's impossible that everyone is going to make a lot of money with the low-income market, the way we did, at least the way we did, up until 2021.

So, part of the evolution is a model change, but like I said, today my ROE would be maybe one point or two points better if I did not have some segments like low-income, which are providing a negative PBT.

So, when I solve the equation on low-income, that naturally will bring me back, not necessarily to the 2021 figures, because they were not, in my view, on a forward-looking basis sustainable, but back to a profitable, more profitability with a profitable low-income segment.

Regulation evolved as well, so from 2019 to 2020, and then 2020 to 2021, there was an evolution on the capital hedge and some other things. There's the INSS cap on interest rates in payroll loans. So, there are regulatory things which also evolved, and we've got to handle that, whether via the third-party providers, the bank correspondents, via our own cost base. So, there are many evolutions all together, but many things that we are doing, or most things we are doing, are answers to counteract those changes, competitive-wise, regulation-wise, and even portfolio-wise.

So, when I tell you that I believe we're going to get back to the higher teens, I'm saying that because we are providing new answers to old questions or new questions, but we're working a lot on those new answers so that we can counteract what's happening competition-wise, regulatory-wise, and even portfolio-wise.

And I'm confident we are on track with that agenda.

Tito Labarta: Great, perfect. Great, thanks so much for the answer, Mario.

Camila Stolf: I want to thank everyone for joining us this morning.

After this conference, the entire Investor Relations team here at Santander Brasil and I will be available to clarify any remaining questions you may have. Thank you very much. Have a great day and until next time.