



# Operational Segment– Financial Services

## CONTEXT

The operational segment of financial services is executed by Realize Crédito, Financiamento e Investimento S.A. (“Realize CFI”) with the objective of providing financial solutions connected to the operational segment of retailing. Among the financial services are those involving the Cartão Renner (private label) and Meu Cartão (Co-Branded), as well as the Saque Rápido (personal loan modality) and the insurance portfolio.

## FINANCIAL PRODUCTS

Cartão Renner (“Private Label”): offers preferential conditions for installment finance to the customers when making purchases at Renner, Camicado, Youcom and Ashua stores.

Additional information:

- On-us purchases only
- Product exempt from annual fee
- Subject to default charges (penalty fee, interest and late payment fee)
- Company own the credit risk

Meu Cartão (“Co-branded”): credit card which offers preferential installment payment conditions for financing customer purchases at Renner, Camicado, Youcom and Ashua stores. The card can also be used at other third-party commercial establishments, respecting the conditions laid down by the establishments themselves.

Additional information:

- Product subject to an annual fee
- Product subject to an emergency credit assessment charge
- Product subject to default charges (penalty fee, interest and late payment fee)
- On-us (approximately 20% of the transactions) and off-us (approximately 80% of the transactions) purchases
- International card
- Company’s credit risk

Saque Rápido: personal loan modality in cash available to card holding customers.

Insurance: other financial services related to *saque-seguro*, *bolsa-segura* and *compra-segura* products.

## CREDIT PORTFOLIO AND DELINQUENCY

The credit portfolio is made up of all the receivables transacted in the financial products already mentioned above, comprising current operations as well as overdues up to 360 days. Any receivable more than 360 days overdue is written down from the Assets to Credit Losses in the Result.

As to the formation of the overdues portfolio (NPL formation), this reflects the variation of the portfolio over a given period discounting write-offs (WO) over this same period, and can be found in the Explanatory Note under Accounts Receivable – Movement of estimated losses on credits.

## LOSSES ON CREDIT

- The losses on credits are made up of estimated losses, write-off of credits (WO) and recovery of credits written off.
- The estimated losses on credit are calculated according to IFRS 9, based on the evaluation of the behavior of the entire credit portfolio, taking into consideration the probability and exposure to delinquency for each overdue bracket. These brackets consider the “dragging” of both the installments which are still current as well as those which have already fallen due, to the worse level of delay in their respective bracket for each customer/contract and then allocated according to stages of risk. More information in the Explanatory Notes with respect to Accounts Receivable.

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## REVENUE FROM CREDIT OPERATIONS, NET OF FUNDING COSTS

Below are the main sources of card revenues. Full information can be found in <https://www.realizesolucoesfinanceiras.com.br/> in the menu Fees and Tariffs.

| Service  | Cartão Renner (Private Label) | Meu Cartão (Co-branded) |
|--|-------------------------------|-------------------------|
| Annual fee   | -                             | ✓                       |
| Issue of a replacement card                                | -                             | ✓                       |
| Use of service channels for cash withdrawals               | ✓                             | ✓                       |
| Emergency credit assessment                                | -                             | ✓                       |
| Delayed interest, penalty fee and late payment fee         | ✓                             | ✓                       |
| Installment interest invoice                               | -                             | ✓                       |
| Interest on purchases financed in more than 5 installments | ✓                             | ✓                       |
| Bank interchange fee (MDR)                                 | -                             | ✓                       |

Revenues are also composed of the following reducing accounts:

- discounts granted are transactions originating from the renegotiation of payment booklets/delayed invoices
- taxes related to the revenues

### Composition of funding cost:

- financial income originating from Interbank Liquidity Investments, classified in Realize CFI's assets
- financial charges arising from funding operations:

Customer credit operations are financed by the following lines:

Explanatory Note Liabilities | Financing – Financial Services Operations: comprising Interbank and Bank Deposit Certificates.

Liabilities | Obligation with Card Administrator: amount related to the portion of Meu Cartão expenditures in third party establishments (off-us).

Net Equity: use of Realize CFI's proprietary capital do capital to finance part of active credit operations, respecting the Basel Index.

The portion of on-us transactions which are current form part of the working capital management of the Company

### Additional information:

- The breakdown of revenues by nature, on average, is represented by interest (~70% of the total) and services (~30% of the total)
- As a rule, interest income is recognized up to 59 days overdue. After this period, recognition ceases until the loan is settled. When the overdue loan is settled, the interest, hitherto suspended, is recognized.

## OPERATIONAL EXPENSES

Represented by the Expenses with Financial Services line in the explanatory note for "Other Operating Results" and largely made up of

- Banking correspondent
- Data processing
- Collection
- Personnel Expenses
- Technical and third party services

Of these Operational Expenses, between 50-60% are variable expenses, mainly linked to the transactional volume in the cards, on-us and off-us.