Marina Magalhães:

Good morning, everyone. Welcome, and thank you for joining Banco Mercantil's earnings conference. My name is Marina, and I am responsible for the Investor Relations department.

Joining us today to present the 3Q24 results are Gustavo Araújo, the Company's CEO, and Paulino Rodrigues, the CFO.

This teleconference is being recorded and will be made available on our IR website after its conclusion, along with a transcript. The presentation materials are already available for download on the site.

At the end of the session, we will have a Q&A section, so we encourage you to submit your questions via the Q&A tab at the bottom of your screen or through the QR Code that will appear on the screen during the presentation. In this case, questions are sent through the Investor Relations department's WhatsApp.

So, to start our earnings presentation, I invite Gustavo to speak.

Gustavo Araújo:

Good morning, Marina. Good morning, everyone. Thank you for your time and attention. Today, we are presenting what is the best operational result in Banco Mercantil's history. This is the eighth consecutive record quarterly result, surpassing, for the first time, the mark of BRL 200 million in net income in a single quarter—97% higher than the same period last year, reaching a ROAE of 41.1% over the last 12 months.

Next, we will go into the quality of these numbers that support this result and highlight all the advantages we bring to our clients—those over 50, our 50+ clients. According to the latest census, this is the largest and fastest-growing demographic in Brazil, and we operate one of the most robust banking operations in the country.

Starting with the highlights, as mentioned, our net income exceeded 200 million, reaching BRL 201 million with a 41% ROAE. This performance was driven by payroll loan origination, our main portfolio, which grew 93% over the first nine months of the previous year.

The balance of payroll loans grew by 39% over the period, or three times the market growth, reaching more than BRL 10 billion in our portfolio. From a market share perspective, Mercantil reached 9.44% of the national INSS payroll loan origination market, all done through our own channels. These are more efficient, cost-effective channels, allowing us to retain primary client relationships.

Banco Mercantil has an 80-year history and an inherent geographical concentration in the Southeast, recently expanding into the Midwest, with a slight expansion into the Northeast. We are now replicating this successful strategy by expanding the bank to over 12 states, covering various locations that we will discuss throughout the presentation.

Many of these locations are close to breakeven, proving our thesis that this strategy is replicable and can be expanded throughout Brazil, where needed, with a demographic and geographic approach to support our digital strategy for client acquisition and cross-sell with physical points.

Digitalization is an essential part of our strategy, not only from a growth and client acquisition perspective with high efficiency but also from the client's perspective, who sees increased security and convenience when performing banking operations with Mercantil.

And finally, a significant highlight. Earlier this year, we had a double upgrade from Standard & Poor's in the first half, and now we have another double upgrade, this time from Fitch, reaching an A+(bra) rating with a positive outlook. S&P has rated us brAA-, which further validates Banco Mercantil's operational and strategic performance.

So, the result is not surprising. It continues a trend built over several quarters of record results. For over a year, the Bank has maintained returns above 28%.

For four consecutive quarters, the Bank has achieved a quarterly annualized return above 40%, reaching 43% in 3Q24 and culminating in the last twelve months, or LTM, at 41.1%.

This outcome stems from substantial growth in our high-quality loan portfolio. The Bank's NII has grown, as has service revenue, disproportionately to expenses. What does this mean? Driven by physical and digital scaling, the Bank has achieved better operational leverage.

In less than a year, the Bank's ROAA jumped from 2.1% to 3.4%, one of the highest in the industry. Leveraging this figure 11 to 12 times, it results in an ROAE of 41.1%, also among the best in the industry.

Now, let's discuss one of Banco Mercantil's major customer acquisition strategies, which currently accounts for a quarter of top-of-the-funnel acquisitions: the INSS payroll auction, targeting new retirees for the 2025 to 2029 acquisition period.

It's worth noting that the INSS auction announcement on October 22 brought significant changes to previous rules, impacting the Bank's strategy.

The first major change is the exclusion of purely digital banks and payment institutions, which means reduced competition from digital banks and payment institutions.

Another critical point, recognizing the social needs of this demographic in Brazil, is the priority given to banks with accessible facilities, such as ATMs, restrooms, and cash dispensers. This structure, which Mercantil has, gives priority to banks over those paying benefits exclusively through banking correspondents.

This positions the Bank for potential leadership in up to 22 of the 26 auction lots nationwide, based on competitive analysis. This could significantly boost our top-of-funnel acquisition of new retirees. Additionally, the customer acquisition cost (CAC) for this auction is, on average, 30% lower than what Banco Mercantil paid in the previous auction.

We see substantial opportunities during the 2025 to 2029 acquisition period, combined with strategies to attract already-retired customers to Banco Mercantil's ecosystem, which we believe offers the best ecosystem for our target audience in terms of channels, products, and convenience. Furthermore, we continue to expand our outreach strategy. What has worked in the Southeast and Midwest, we are now replicating in 12 additional states, expanding our successful strategy nationwide. With just 300 branches, Banco Mercantil is already the fifth-largest benefits payer in the country.

Strategically placing branches in advantageous locations will help accelerate acquisitions through auctions, digital channels, and recent auction results.

Digital channels play a critical role in this strategy. With fewer branches than competitors, Mercantil has become the fifth-largest benefits payer, capturing a 9.44% market share in payroll origination. This success is driven by our investments in enhancing the digital experience for the 50+ audience. Credit origination, the primary driver of the Bank's results and NII, rose from 38% to 68% within a year through our digital channels—half via the app and half via WhatsApp, a streamlined channel tailored for this demographic, offering convenience in engaging, clarifying doubts, and contracting services.

The remaining third of our proprietary channel distribution strategy, of course, comes from our physical branch network, bolstered by auction inflows. This comprehensive approach enables the Bank to outpace market averages efficiently.

Of new cohorts, 65% of clients already use the app, indicating a strong adoption of digital channels by recent retirees and the 50+ segment. The app has enabled the Bank to expand more digitally and bring an enhanced client experience and operational leverage, helping us grow and expand margins. These achievements are validated not only by Standard & Poor's with a double upgrade to AA- but also by Fitch Ratings, which recently upgraded us to A+ with a positive outlook, even amid high household debt, elevated delinquency rates, and an anticipated rise in base interest rates, along with historically low payroll loan spreads.

Despite this environment, we received endorsement from two major rating agencies, supported by a well-positioned strategy and a robust capitalization level, with Tier 1 capital exceeding 3.5.

Broad Basel Index remains robust at 16.8%, with a liquidity coverage ratio well above the regulatory requirement at 2.6x, far exceeding the Central Bank's minimum of 1x. Additionally, we maintain a funding cost below the CDI, a cash balance above BRL 5.9 billion, and results and returns that significantly outperform the market average.

To conclude, let's look at Banco Mercantil's major figures. The Bank now serves 8.7 million clients. These are highly engaged clients, with more than half holding a credit operation, a high net promoter score (NPS)—indicating a strong likelihood of referring new clients via our member-get-member program—and a high level of main banking relationship.

A significant portion of these clients drives the Bank's credit portfolio, our primary revenue driver. The Bank's NII increased by 24% over the period, well above the market average, thanks to our payroll products, which now comprise over BRL 10 billion of the total.

This growth isn't just rapid; it's also high-quality. The Bank is growing exponentially, with increased efficiency and strong security and quality. The Bank's delinquency rate, particularly for Over 90, stands at 1.9%, well below 2% and significantly under the market average of 4.5%. For personal loans under free resources, our rate remains lower than the Central Bank's historic average of 5.6%. Zooming in on payroll loans—where 81% of our portfolio is collateralized—the market's Over 90 loss rate stands at 2%, while Mercantil's rate is only 1.4%, placing us 60 basis points below the market average in losses while still achieving significant growth.

This selective credit strategy allows us to grow far above the market rate. For instance, our payroll loan balance is growing three times faster than the market average.

Even in a challenging environment with high Selic rates, low historical spreads on payroll loans, and an increasingly concentrated product mix in payroll loans, the Bank has maintained a financial margin above 20% through its hedge strategies, portfolio mix, and low credit losses. The margin stands at 20.6% over the period, with only a slight 0.7 bps decrease.

Beyond credit, our ecosystem strategy generates impressive service fee revenue, reaching BRL 176 million, which directly contributes to the Bank's bottom line without allocating capital. For clients, it enhances engagement, main relationship status, and perceived value, as they can purchase a variety of products from Mercantil's ecosystem at much lower prices than at competitors.

Through partnerships and joint ventures available at our counters, we offer life insurance, home insurance, medical and dental discounts, pharmacy discounts, gym memberships, wellness programs, locksmith, plumber, and digital inclusion services, mobile recharge, and many other solutions now accessible at Mercantil Shop.

This broad suite of offerings supports high-quality credit, cross-sell opportunities, and customer retention, especially for our 50+ demographic, by providing a complete, accessible ecosystem.

All of this contributes to a 97% growth in net income, with BRL 201 million for the quarter. Our LTM ROAE reached 41.1%, an increase of over 18 bps, marking one of the industry’s highest results. Our Basel Index remains robust at 16.8%, a marginal increase from the same period last year.

To provide more details on these figures, I’ll turn it over to our CFO, Paulino Rodrigues, to continue with the results presentation. Good morning, Paulino.

Paulino Rodrigues:

Thank you very much, Gustavo, and thank you to everyone joining us for Banco Mercantil's third-quarter 2024 earnings presentation. As usual, let's dive deeper into the institution’s financial performance this quarter.

Starting with our credit portfolio, the main driver of the institution’s results, which reached BRL 16.5 billion this quarter, marking a 24% increase—more than 2.3 times the market growth rate.

The standout was our INSS Payroll Loans portfolio, which grew by nearly BRL 1 billion quarter-over-quarter, showing a 39% growth rate—about three times the market’s growth in the same period. This product continues to be the primary component of our credit portfolio, now accounting for 62% of the total, up from 55% in the same quarter last year.

As for the other portfolios, we observed relative stability, with the Personal Loan FGTS Advance growing BRL 200 million to reach BRL 3.1 billion, and Personal Loans also increasing by a similar amount to BRL 2.1 billion—a 12% year-over-year increase in Personal Loans and 8% in FGTS Advance.

Overall, we see consistent growth quarter after quarter, enabling Banco Mercantil to continuously increase its market share in mass-market retail credit.

The Bank now holds a 3.8% market share in INSS Payroll Loans, up from 3.1% in Q3 2023.
Moving to credit origination, there are significant highlights this quarter. We achieved a record quarterly origination figure of nearly BRL 3.5 billion.

The main highlight, as with the balance, is the INSS Payroll Loans portfolio, where we achieved a record in terms of recent origination, surpassing BRL 2.5 billion. This gives us over 9% market share in INSS Payroll Loan origination.

Bear in mind that this is a highly concentrated market, where the five largest banks hold around 75% of the portfolio. So, gaining close to a 10% market share, as we have over recent quarters, signals that Banco Mercantil's strategy in products, channels, and market approach is paying off, delivering consistent portfolio growth.

Of course, we must manage market seasonality and other factors. Our portfolio is 100% self-originated, either through our physical branches or digital channels, as Gustavo outlined earlier, which means our margins are not impacted by third-party commission costs.

Given that the INSS Payroll Loan segment is currently experiencing the narrowest margins in its history, this positions us competitively.

Our other portfolio segments have shown varying performance. We've seen a deceleration in the FGTS Advance, which dropped below BRL 200 million in originations this quarter for the first time since its launch. This indicates that the product has matured and reached a plateau, so we don't foresee it driving future growth as it once did. Conversely, other segments, like private-sector payroll loans currently under discussion, could serve as new growth avenues.

Unsecured Personal Loans, an important line for complementing our offerings to clients and generating an attractive NIM, saw the best origination in recent quarters, reaching BRL 638 million—a record for recent quarters.

Together, Banco Mercantil's credit origination grew 32% year-over-year, achieving the balance mentioned on the previous slide. This growth has been healthy, with robust risk management.
Comparing quarterly figures, our Over 90 delinquency rate—a primary industry metric, shown on the left—dropped by another 10 basis points to a low of 1.9% in Q3 2024, well below the industry's rate for individual clients, which rose to 5.6% after two quarters of improvement.

Household indebtedness remains elevated, reaching 77.2% per the latest CNC report, compared to a historical average of 65.2%. Additionally, family delinquency hit 29% in September, above the historical average of 24.3%.

So, this context highlights a credit market still facing significant delinquency risks, making Banco Mercantil's performance even more noteworthy, as illustrated by the Over 90 metrics on your left.
If we consider another leading indicator for Over 90, the Over 15-90, we saw a slight increase of 10 basis points this quarter, though from a historically low base of 1.3% last quarter, now reaching 1.4% in Q3 2024.

This rate is still well above the National Financial System (SFN) as a whole, which rose by 20 basis points in the quarter, returning to the 2.2% level observed in Q1 this year. This level is still concerning for credit portfolios.

This trend is reflected in our provisioning expenses, seen in the chart on the left, as well as the proportion of these expenses relative to Banco Mercantil's total credit portfolio. This ratio held steady at 2.6%, a 10-basis-point quarterly variation, with provisions reaching BRL 437 million in Q3 2024.
Our AA-C grade portfolio—those we call "interest-accruing" in industry jargon—remained stable at 96.1%, as shown on the right, following consecutive quarters of growth.

Now, turning to service revenue, an equally important component that enhances customer loyalty and supports a diversified revenue base.

Over recent quarters, we've been fine-tuning this portfolio, aligning it more closely with customer needs, and achieving steady revenue growth. Service revenue reached BRL 176 million this quarter, with strong quality.

Notably, 62.3% of this revenue comes from insurance and assistance products, which customers value far more than traditional bank fees, reflecting a long-standing trend toward reduced fee income both at Mercantil and across the market.

Mercantil has demonstrated an ability to offset declining fee income by expanding other sources, with this quarter's highlight being the insurance and assistance services offered through Mercantil Shop, our marketplace, as Gustavo mentioned.

Now, shifting to the other side of the balance sheet—funding sources. Unlike most mid-sized banks, Mercantil generates its funding primarily through proprietary channels, allowing for a lower funding cost than standard mid-sized banks and a broad, distributed funding base through its own channels.

In Q3 2024, term deposits made up 77% of the composition, as shown in the chart. Structured operations gained share over the past 12 to 15 months due to a few larger deals that made this more costly funding type occupy a greater portion of our portfolio.

Consequently, we observed a higher funding cost relative to the CDI benchmark due to this mix effect, reaching 98.7% of CDI over the last 12 months.

Other funding sources, especially financial letters, mainly bilateral lines, saw substantial volumes in Q3 2024.

This growth is directly related to our continuous credit rating improvements, as Gustavo mentioned, which increase the market's appetite for these instruments.

As a result, we saw growth in other funding sources—financial letters, LCAs, LCIs, and bilateral DI operations—now representing 14% of our total funding portfolio.

In greater detail, on the left pie chart, 84% of Banco Mercantil's funding—retail and treasury sources—comes from proprietary channels.

Retail accounts for 68% of our funding, comprised mainly of INSS clients—pensioners and retirees, our largest customer group—and 43% from other clients through our channels. This breakdown reflects the diversity in our funding sources across retail and other client segments, both individual and corporate.

And additionally, the treasury, mainly through bilateral operations, whether in financial bills, DPGEs, or bilateral DIs, represents the remaining 16% to reach the 84% shown on the left chart. This leaves the final 16% split between partner platforms with 8% and structured operations, as mentioned on the previous slide, comprising the other 8% to complete Banco Mercantil's total funding sources.
Regarding liquidity, Banco Mercantil maintains a historically conservative liquidity stance. We saw an increase in the Bank's liquidity position at the end of Q3 due to the factors I just mentioned, reaching a historically high short-term liquidity coverage ratio of 2.6x, well above the 1x minimum required by the Central Bank.

In practice, this means the Bank closed the quarter with a cash balance of BRL 5.95 billion—practically BRL 6 billion—on a balance sheet with approximately BRL 22 billion in assets, indicating a robust cash position.

Turning to capital, Banco Mercantil closed Q3 2024 with a comfortable Basel Index of 16.8%, slightly lower than the 17.5% observed in Q2. As explained in the chart at the top right, this was primarily due to the growth in the credit portfolio that I just outlined.

The Bank achieved its highest quarterly credit origination in recent quarters, driven by payroll loans. Naturally, this credit growth increases the risk-weighted assets (RWA), which adjusts the Basel Index. Nevertheless, a Basel level of 16.8% remains highly favorable by banking industry standards, especially within the Brazilian context.

Gustavo previously mentioned our ratings, noting two recent upgrades in June and August. Today, we hold an AA- rating with a stable outlook from S&P and an A+ rating with a positive outlook from Fitch. We find this chart insightful because it reveals the dynamics underpinning the Bank's margin improvements and returns observed in recent quarters and years.

This dynamic is driven by scalability, with growth from both network expansion and digital strategies enabling Banco Mercantil to generate increasingly higher revenues—the white line at the top of this chart—which are growing disproportionately compared to administrative, operational, and personnel expenses, represented by the light blue line in the middle.

Despite interest rate increases in the period under review and the volume growth from the Bank's expansion, resulting in notable funding expense increases—from BRL 105 million to BRL 501 million between Q3 2021 and Q3 of this year—the combined effect with credit risk management has remained efficient, allowing the Bank to capture ever-higher returns.

Focusing on the net interest margin (NIM) and financial intermediation income, Banco Mercantil has, despite the interest rate volatility, record-low payroll loan spreads, and complex economic factors, maintained its net financial margin above 20%.

Although the margin has declined from recent quarters, it remains at a comfortable 20.6%, leading to a net interest income (NII) of BRL 1.047 billion. Combined with the previously mentioned BRL 176 million in service revenue, we reach a net financial margin plus service revenue totaling BRL 1.223 billion—a 32% NII increase year-over-year and a 15% rise in service revenue.

This observed scale gain, sustained NIM, effective credit risk management, and other elements discussed allow Banco Mercantil to deliver its highest-ever ROAA in Q3 2024.

The Bank posted significant growth on both a quarterly and annual basis—1.3 percentage points year-over-year and 0.3 percentage points quarter-over-quarter—achieving an ROAA of 3.4%. Multiplied by the Bank's leverage, which was 12x this quarter similar to the previous one, it yields a historical ROAA surpassing 40% for the first time, reaching 41.1%, up from 37.6% last quarter, marking an annual increase of 16 percentage points.

And that brings us to the end of the detailed financial presentation. I'll now hand it back to Marina Magalhães so we can proceed with the Q&A session. Thank you very much.

Participant 1 (via webcast):

How does Banco Mercantil aim to differentiate itself in the increasingly competitive payroll loan market?

Gustavo Araújo:

Great question. We've discussed a lot here about our execution discipline. For us, a significant topic is payroll loans. At Banco Mercantil, we dissect this topic with our teams across various disciplines to develop competitive advantages. Each competitive advantage should contribute to what we call "excess return," or the differentiation that outperforms the cost of capital.

Let's look at payroll loans specifically. We're facing historically low spreads for this product, with high future interest rates and low caps on payroll rates. To stay competitive, we need a mix of factors to work together, even in this product line.

Starting with distribution costs, a significant line item in the product's PNL, Banco Mercantil has an excellent mix of partnerships and distribution channels, including some of the best digital channels. Given the narrow margins, we've chosen to distribute through proprietary channels to reduce distribution costs.

Among our proprietary channels, 68% of distribution now happens through digital channels—the most efficient, with marginal distribution costs approaching zero. For physical branches, the fixed cost is set, so the more we sell, the more we dilute those physical costs, enhancing our operational leverage.

This focus on reducing distribution costs has created a strong advantage for us.

Furthermore, while many in the industry see the 50+ segment and retirees as payroll loan customers, we know this group can also be depositors. Many retirees have saved resources over their lifetimes. We've managed to cross-sell funding products to those who aren't borrowing, which helps keep our funding costs under 100% of CDI, competitive with major banks.

Next is risk management. Even in secured products like payroll loans, understanding and managing risk remains essential. Given the factors we can't control, such as future interest rates and loan caps, credit loss is the one factor we can optimize.

Our specialized risk team analyzes two primary factors in payroll loan losses: mortality and benefit cessation. We have a well-developed actuarial team assessing mortality risk based on age, social parameters, and income.

In terms of benefit cessation, certain types of benefits are more vulnerable to suspension or cuts. The Bank applies a closer evaluation to these, resulting in a 1.4% Over 90 delinquency rate for us, compared to the 2% industry average—60 basis points lower.

From a risk perspective, this enables us to maintain a more selective strategy than the market while achieving a 9.44% share of the payroll loan segment. When margins expand, Banco Mercantil could grow its share even further and potentially activate higher-cost channels.

Beyond these points, payroll loans represent our primary product, but they're also a gateway to other products, which enhances our client margins and reduces churn as clients feel less inclined to refinance elsewhere.

To summarize: it's the combination of all these factors that has allowed us, despite narrow payroll loan spreads, to achieve our ROAE of 41%.

Participant 2 (via webcast):

Could you comment on the material fact regarding the Federal Revenue appeal granted by TRF6, concerning one of the cases related to Cofins?

Gustavo Araújo:

There are six judicial cases in this group, three of which are at the Bank level. All three initially received favorable rulings. Now, one of those rulings has been overturned by the appeals court.

Currently, the leading case is on hold at the Supreme Federal Court. This is why the Bank believes there are multiple potential avenues and measures to consider regarding this matter, including the possibility of adjustments or modulation of effects that may come directly from the Supreme Court.

Given this, I believe it's essential to approach this topic calmly, as we still have multiple options and possible outcomes in what has been a lengthy process over the years. Of course, the Bank has various contingency plans in place and, as we've shown, a strong surplus in capital.

Marina Magalhães:

We received two questions regarding the Bank's margins.

Participant 3 (via webcast):

What actions are being taken to protect the Bank's margins, considering the strong volatility in future interest rates?

Participant 4 (via webcast):

We're seeing a drop in the NIM, and INSS origination is increasing, where spreads are tight. How should we think about the Bank's margin trend going forward?

Paulino Rodrigues:

First, on the impact of future DI rates. I believe our hedging policy and risk management strategies have shown resilience in various scenarios. We've experienced Selic rates at 2%, then at 14, and recently down to 10. Now it's rising again.

Looking back at the Bank's previous results presentations, you'll see that our NIM has consistently hovered around just below 20 up to about 22. Now it has slightly dropped to around 21, and just above 20, as we reported.

Comparing interest rate volatility to our NIM's stability, I'd say we've been quite successful in protecting the Bank's margin. So, this addresses our market risk hedging strategy.
As for product margins, particularly concerning the mix with higher payroll loan origination, there's an evident mix effect here. Both Gustavo and I mentioned that the payroll loan product is currently at its lowest margin since it was regulated—particularly for INSS payroll loans, which have reached their lowest spreads.

Yes, we're facing challenging conditions for this product. Selic rates were falling, and the cap was being adjusted downward along with it, under a rule I won't go into here. Now, with Selic rising, the cap hasn't budged, which puts even more pressure on margins. So, we might expect to see reductions in our NIM, influenced by this mix effect. In this quarter, as I showed, most of the Bank's origination growth came from this line.

Given this mix effect and current market conditions, even with effective hedge strategies, it's reasonable to expect our NIM to be somewhat lower, perhaps around 20 or 19 in the coming quarters.

On the other hand, we believe the Bank's other attributes will enable it to continue delivering strong ROAA and ROAE results.

Marina Magalhães:

Thank you, Paulino. This month, the INSS auction took place, and we received several questions related to that topic.

Participant 5 (via webcast):

What is your perspective on the results of the INSS benefit payment auction?

Participant 6 (via webcast):

Are there plans to accelerate physical expansion to other regions following the auction results?

Gustavo Araújo:

I think the outlook is quite favorable. The Bank conducted an in-depth analysis of the geographical distribution and network of our main competitors to understand how they might position themselves. We conducted share studies, geographic assessments, and expansion possibilities. This auction is strategically significant for the Bank, currently contributing 25% of our top-of-funnel customer acquisitions.

As I mentioned, there were notable changes in the auction guidelines. First, purely digital banks were excluded. Second, payment institutions, financial companies, and investment banks were also excluded. Lastly, the auction prioritized banks like Mercantil, which offer a more accommodating physical network for their clients.

Our branches offer larger facilities with cash dispensers, accessibility, restrooms, and an overall experience far superior to those relying exclusively on third-party agents. This prioritization has positioned the Bank as a leader, not only in eight lots but in 22, giving us a standout position even ahead of larger retail banks.

Considering the acquisition cost through the auction compared to digital channels or member-get-member programs, we've achieved a 30% reduction in costs with potential to expand across 22 additional lots.

The Bank also has strategies to attract retirees from competitors, leveraging our superior channels and products, and we retain the benefits of previous auctions. It's important to note that this auction focuses on new retirees from 2025 to December 2029, while for the 40 million retirees as of 2024 and prior, the Bank still has regulatory advantages to secure these clients as primary customers.
Combining this forward-looking strategy with the auction's potential and the expansion in targeted areas, I believe the Bank's strategic approach shows strong promise given the guidelines and new regulations.

Participant 7 (via webcast):

With the new resolution on expected losses coming into effect in 2025, how is the Bank preparing to meet these new accounting requirements?

Paulino Rodrigues:

The new resolution, 4,966, will indeed become effective at the start of next year, and we've been preparing diligently. We started this project back in 2022, anticipating the incremental regulatory updates the Central Bank has been releasing on this topic. Just today, in fact, there was another related regulation issued.

Operationally, we're ready. We've been running the system in parallel since July to ensure effectiveness, so we'll be fully prepared when 4,966 takes precedence at the beginning of the year. Given the extensive work we've put in, I believe we're better prepared than many of our market counterparts.

As for the impact of expected losses, it's worth noting that Mercantil has been publishing financial statements under IFRS for some time, in compliance with our listing segment's requirements. This means the difference between BACEN GAAP and IFRS is already public knowledge. While IFRS 4,966 does have some nuances, the differences we foresee aren't material.

We estimate the impact on expected losses to be manageable, around 2% of equity at most, which we see as fairly typical and lower than what we've discussed with other market players.

Participant 8 (via webcast):

What is your view on the government's planned private payroll loan? Will Mercantil participate in this market?

Participant 5 (via webcast):

What is your view on the results of the INSS benefit payment auction?

Participant 6 (via webcast):

Are there any plans to accelerate physical expansion into other regions following the auction results?

Gustavo Araújo:

I believe the outlook is very favorable. The Bank conducted a detailed study of the geographic spread and network of our main competitors to understand how they might act. We performed studies on share, geography, and potential expansions. This auction is strategically significant for us, as it currently provides 25% of our top-of-funnel client acquisitions.

As I mentioned, there were substantial changes in the auction rules. First, the exclusion of purely digital banks. Second, the exclusion of institutions such as payment institutions, finance companies, and investment banks. The third significant change is the priority given to banks like Mercantil, which have a more customer-friendly physical network.

Our branches offer larger facilities with cash dispensers, accessibility features, and restrooms, providing a much better experience compared to those solely reliant on exclusive third-party agents. This prioritization has positioned us as a leader in not only eight lots but 22 lots in the auction, giving us a prominent position, even ahead of larger networked banks.

Considering the acquisition cost via auction compared to digital channels or member-get-member programs, we achieved a 30% cost reduction with expansion potential in another 22 lots.

We also have strategies to attract retirees from other banks, leveraging our superior channels and products, and we maintain the benefits from previous auctions. It's important to note that this auction focuses on new retirees from 2025 to December 2029, while for the 40 million retirees from 2024 and before, we still have regulatory advantages to establish ourselves as their primary bank.

Combining this forward-looking strategy with the auction's potential and expansion in targeted areas, we feel the Bank's approach holds strong promise given the rules and new regulations.

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With the new resolution on expected losses coming into effect in 2025, how is the Bank preparing for these new accounting requirements?

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The new resolution, 4,966, will indeed become effective at the start of next year, and we have been preparing extensively. We initiated this project back in 2022, anticipating the incremental regulatory updates from the Central Bank. In fact, there was another related regulation issued today.

Operationally, we're ready. We've been running the system in parallel since July to ensure its effectiveness, so we'll be fully prepared when 4,966 takes precedence at the beginning of the year. Given the extensive groundwork, I believe we're better prepared than many of our market counterparts.

As for the impact on expected losses, it's worth noting that Mercantil has been publishing financial statements under IFRS for some time, meeting our listing segment's requirements. This means the difference between BACEN GAAP and IFRS is already public knowledge. While IFRS 4,966 has some nuances, the differences we foresee aren't material.

We estimate the impact on expected losses to be manageable, around 2% of equity at most, which we see as fairly typical and lower than what we've discussed with other market players.

Participant 8 (via webcast):

What is your perspective on the government's planned private payroll loan? Will Mercantil participate in this market?

Gustavo Araújo:

To touch on this briefly: the FGTS line has matured in the market. Mercantil was a leader in this line for some time, primarily distributing it through digital channels, with WhatsApp being a key driver. This line is now being considered for either maintenance or potential replacement by a new private payroll loan.

If we look at market numbers and draw some comparisons, we see 40 million INSS retirees supporting a loan portfolio of almost 300 billion. Federal civil servants, with just over 2 million retirees, account for a portfolio of 350 billion. Private payroll loans, in their current arrangement, involve 49 million salaried employees yet represent only 40 billion in loans. So, the current portfolio size is minimal relative to the potential audience.

Discussions in various forums, including trade associations and government entities, focus on improving the repayment mechanism for this loan through direct payroll deductions instead of the GRP system. There's also talk of utilizing FGTS as additional collateral for the product.

Mercantil has well-established channels, robust customer acquisition strategies, and has seen significant success with the FGTS public, which would likely overlap with a private payroll loan audience. If the product offers favorable risk-return characteristics, I believe we have strong digital acquisition strategies in place. Our digital lead acquisition is well-developed, with a low fraud rate—just 0.02% in the last 12-month cohort. The Bank is safe and ready to participate, provided the product aligns with our policy for growth with profitability and security.

It’s a product closely related to others we already offer in terms of payroll deduction and product structure. If it moves forward, I believe it could present a new growth opportunity for Mercantil.

Participant 9 (via webcast):

What explains the decline in the Basel Index, from 17.5 in June to 16.8 in September?

Paulino Rodrigues:

This is outlined quite well in the presentation, on the relevant slide. But the main reason is the accelerated growth in credit origination observed in Q3 2024.

We have a core capital graphic. Although it’s not on the Basel Index specifically, they correlate, and it illustrates this well. Essentially, it’s due to the Bank’s growth in this quarter, originating over 3.5 billion in credit, the largest origination we’ve seen in recent quarters. There are other minor variations, but the primary answer lies in credit growth.

Marina Magalhães:

We’ll now move on to the last two questions, which are related to the Bank’s shares and liquidity.

Participant 10 (via webcast):

Are there any initiatives under consideration to improve the liquidity of the Bank’s shares?

Participant 11 (via webcast):

Given the strong quarterly profit, can shareholders expect any extraordinary dividends?

Paulino Rodrigues:

First, a small note: the quarter’s results weren’t surprising to us. We have been working toward this consistently over time. Of course, surpassing the 200 million mark for the first time, closing slightly above 201 million, is significant.

Regarding dividends, we’ve mostly been paying the minimum dividend, often through interest on equity (JCP). We don’t currently anticipate any changes to this approach.
As for the share liquidity, we engaged a market maker in mid-September, as Marina can confirm.

Marina Magalhães:

Yes, it started in mid-September.

Paulino Rodrigues:

Since mid-September, we’ve observed increased liquidity in the Bank’s shares based on reports from our market maker and the exchange itself. We now consistently see daily trading volumes above R$1 million, and the Bank has been gaining market position among listed companies. In fact, this week, we received a report from the exchange confirming that we’ve been steadily climbing in rank for nearly a year.

For now, that’s our main update. We don’t have any additional short-term plans, but, of course, as management, it’s our responsibility to monitor and explore opportunities to further enhance liquidity. We believe there is untapped value here that we can pursue, market conditions permitting.

Marina Magalhães:

Thank you, Paulino. We'll now proceed to close our event. Any remaining questions will be answered directly by the Investor Relations team, and please feel free to reach out for any additional inquiries using the contact details displayed on your screens.

This presentation, which has been recorded, will also be available on our website after the event.

So, I'd like to thank Paulino and Gustavo for their presentations and wish everyone a great day