

Leonardo Ferraz:

Good morning everyone, and welcome to Banco Mercantil's 2Q25 earnings call.

My name is Leonardo Ferraz, I'm responsible for Investor Relations, and I thank everyone who is connected with us this morning.

Joining me today are Gustavo Araújo, the Bank's CEO, and Paulino Rodrigues, CFO and Vice President of Investor Relations, who will share the main highlights and figures for the quarter.

Before we begin, I would like to remind you that this call is being recorded and will be available on our investor relations website, along with the transcript. The supporting material used today is also available for download on our website, and at the end, we will have a Q&A session. Questions can be submitted at any time, either through the Q&A tab located at the bottom of your screen, or via our WhatsApp using the QR Code that will be displayed throughout the presentation.

So, to get started, I'll hand it over to Gustavo Araújo, CEO of Banco Mercantil. Gustavo.

Gustavo Araújo:

Thank you, Léo. Good morning. Thank you very much to everyone for joining us.

Well, 2Q25 was, without a doubt, one of the most challenging periods when we talk about the collateralized market. And why? Well, the Selic rate, as we know, rose to 15%; the average CDI in 1Q this year went from BRL 12.95 to BRL 14.48, and we did not see, there was no change in the cap for payroll loans; we also observed a significant deterioration in delinquency indicators when looking at the Retail and Free Resources markets; and furthermore, the government also advanced the payment of the 13th salary for INSS retirees and pensioners, which increases client liquidity and also brings forward loan repayments.

But most importantly, especially, this quarter we saw the implementation of a new payroll loan unlocking process using biometrics, based on the biometric voter registration database from the Superior Electoral Court (TSE). And here we note that many retirees are not required to vote and many do not have a digital voter registration, meaning their biometrics are not registered, which caused a sharp drop in payroll loan origination in the market.

Before diving into our numbers, I want to make an important caveat. Mercantil had already been using biometrics as the main method for loan contracting since 2019, but it was through a much smoother process, utilizing more robust and recent biometric databases. So this process change has a significant impact on the market and obviously on Mercantil's origination as well.

That said, Banco Mercantil posted another record net income of BRL 243 million. Practically stable, with a slight improvement compared to 1Q25. However, 34% higher when compared to the same period last year, and a ROAE of 46%, which we believe – we'll see in upcoming disclosures – if not the highest in the industry, will again be one of the highest.

And we continue to bet (despite the very challenging scenario) on our expansion thesis. So, we expanded our physical presence in the quarter and semester, and we continue to strongly accelerate our digitalization strategy. 80% of all origination at the Bank has already occurred through one of its digital channels, mainly the App and WhatsApp. So, I think we can say without a doubt that Banco Mercantil is today the most digital collateralized loan bank in the

country. This is an important competitive advantage that we will see further on during the presentation.

Additionally, we reported record service fee revenue for the period, of BRL 207 million, coming from our 50+ product and service ecosystem, which we will also drill down on shortly.

So, the Bank's operation. Here we can see from various angles and indicators, it is one of the fastest-growing in the country without sacrificing profitability. Regarding net income, we have an impressive CAGR of 71%, reaching BRL 243 million in net income in 2Q this year and 46% ROAE, capturing increasing scale gains and operational leverage. And this profit is driven by the Bank's loan portfolio, which grows 2 to 3 times faster than the market, reaching BRL 19.3 billion, but without compromising quality.

When we look at delinquency indicators, especially Over 90 days, we have 2.3%, practically half the Central Bank's series for Retail and Free Resources, which increased 60 bps and is now around 5%.

We grew very strongly, 2 to 3 times faster than the market, and with much better quality, losing 2 times less than the market. If we zoom in only on INSS payroll loan growth, that growth was 37%, almost 5 times the market average over the last year.

But this result is not driven solely by the loan portfolio. The Bank also invests in the ecosystem and has a strong purpose to be the largest, best, and most complete ecosystem for the 50+ audience. We have already reached over 3 million active assistances and have solutions in insurance, health, dental care, technology, wellness, education, and most recently, this quarter, we launched our news portal, Portal Viva.

We are very proud to launch and announce Portal Viva, which is the largest and first portal in the country dedicated to the 50+ audience. It's a portal dedicated to bringing information, simplifying the client's life, engaging, delivering news of interest to the public, increasing traffic on major topics like culture, leisure, lifestyle, technology, finance, citizenship and rights, health, and wellness, and it is a partnership with Estadão, which is a company that starts very strong due to our partner Estadão. So, the Mercantil-Estadão partnership is born to be a major player in our ecosystem, in the daily lives of our clients.

And this is driven by what I mentioned earlier, one of Banco Mercantil's main competitive advantages: adapting its technology to client needs, guiding the 50+ client through a growing digitalization journey, which is sometimes not so transparent or natural for them, adapting to their needs through the app but sometimes also through WhatsApp, generating, from the client's perspective, convenience, ease, and security, and from the Bank's perspective, efficiency, expansion, and the scale gains we showed at the start of this presentation.

And this quarter, we achieved one of the company's key and most challenging objectives, one of the toughest to reach in our OKRs (Objectives and Key Results) methodology that we pursue quarter after quarter, which is to reach 80% of Banco's credit contract origination through one of its digital channels. That is, with a very low marginal distribution cost, close to zero, in an industry dominated by distribution costs that are often commissioned and very expensive within the P&L cost structure of our main product.

So, an important advantage that allows us to keep growing more and more, but which is also supported by our physical channels. We believe, as a competitive differential, in strong digital presence without giving up multichannel convenience, including physical convenience, understanding that for several client segments the physical presence is indeed very relevant, and that the combination of these two approaches generates a very differentiated value

proposition compared to the competition. This client can then go to one of our branches, one of our stores, ask questions, receive personalized and differentiated service. Therefore, we continue with a very pronounced geographic expansion pace, trying to bring this entire experience, this in-person service, which is also a necessary requirement for carrying out auctions. In other words, physical presence is also necessary for us to execute the lots from the bids' auction last October.

But it is worth highlighting that we have gained a very important market share; Mercantil is today the fifth largest payer of INSS benefits in the country, with a much leaner footprint than most of its competitors precisely because of its digital strategy. So, the combination of the two worlds allows us to bring physical convenience but transition digitally at a much more accessible and convenient channel cost for this client.

In summary, despite all the challenges and changes, we achieved a record quarterly net income of BRL 243 million, in line with 1Q of the year but 34% higher than the same period last year. The loan portfolio reached BRL 19.3 billion, twice the market growth, reaching 24% growth. And a large part of this portfolio is payroll loans, which reached BRL 12.6 billion, that is, 35% growth compared to the same period last year—meaning 5 times the market growth.

And all of this, as mentioned before, without giving up quality: Delinquency, the Bank's Over 90 index reached 2.3%, an increase of 0.3 percentage points, less than half of the Retail, Free Resources market in the Central Bank's historical series, which reached 5%, up 60 basis points in the period. Not only did the loan portfolio contribute to the result, but also, as already mentioned, the subscription-based product and service ecosystem for our 50+ audience—the largest ecosystem in the country—reached BRL 207 million, also a record figure for the period, with 18% growth compared to the same period last year.

Well, all of this combined leads us to a ROAE of 46%, with an increase of 8.4 percentage points in the period, without compromising the Bank's solidity and capitalization, with a Basel ratio reaching 17.1%, with a decrease of 0.4 percentage points. Much of this decrease came from the implementation of regulation 4,966, which took place between the end of 2024 and the beginning of 2025, but if we compare quarter over quarter, we already see, on the margin, a recovery in the Basel ratio increment, which brings more solidity to the Bank and, more than that, a capital position that allows the Bank to leverage its growth.

Well, to dive deeper into each of these numbers, I will now call our CFO, Paulino. Good morning!

Paulino Rodrigues:

Thank you very much, Gustavo. Good morning to you and to everyone following this Banco Mercantil results disclosure for 2Q25.

As usual, we will now delve a little deeper into these numbers, starting with our loan portfolio, the institution's main asset, which closed 2Q25 at BRL 19.3 billion, driven, as usual, by the INSS payroll loan portfolio, which ended the quarter at BRL 12.6 billion—a 4.1% increase compared to the previous quarter and 35% year-over-year growth, as shown on the screen. Meanwhile, the national financial system as a whole saw a 1% decline in the loan portfolio quarter-over-quarter and only 7.6% growth year-over-year.

All these numbers, quite different from what we are used to seeing, are basically due to the issues the market—particularly the INSS payroll loan market—has been facing since May, as Gustavo mentioned in his introduction—I won't repeat myself here. It's important to say, therefore, that May and June, especially within this quarter, were significantly affected by these

factors, which we expect the INSS to address in the coming months so that the INSS payroll loan market as a whole—and naturally Mercantil alongside it—can recover. We will talk shortly specifically about origination in this market.

In our other lines, we observed stability: the advance withdrawal line for the FGTS birthday withdrawal closed the quarter basically in line with the previous quarter, around BRL 2.8 billion. This is a line that, as we commented, especially now with the launch of private payroll loans, has been losing origination depth, although it is a line we like a lot, we consider very positive for the general population and a very important asset for the Bank.

Our personal non-payroll loan portfolio also remained relatively stable, at around BRL 2.5 billion, practically in line with the previous quarter, and the other lines showed no significant fluctuations. So, the year-over-year portfolio growth was 24%, basically double the market growth observed in the national financial system series provided by the Central Bank.

Thus, we now have an average annual growth of 25%, demonstrating that the Bank's growth, superior to the market and therefore a gain in market share, has been consistent over the last years as the strategy has been executed. And all this with controlled delinquency, with Over 90 days at 2.3%—which we will detail a bit more shortly—but with some marginal variations.

So, a very solid, profitable portfolio with 80% collateralized assets, which, despite all market difficulties, has shown very satisfactory performance over the last quarters, and this last quarter was no different.

Changing the tone slightly, the real issue is origination, whose fluctuation—and here I refer specifically to INSS payroll loans, our main portfolio—suffered a rather abrupt reduction due to the issues involving the INSS and the operational procedure changes in payroll loan origination since May. So, two of the three months in the quarter, May and June, were notably affected, making our origination reach practically BRL 1.8 billion in 2Q, after a record observed in 1Q of BRL 4.3 billion.

Still, the Bank Mercantil's average annual growth rate for payroll loan origination stands at 20%, a quite expressive and constant growth rate, except for this 2Q25, which, as mentioned, showed this unexpected fluctuation due to reasons beyond our control.

In our other portfolios, we observed relative stability in origination: the FGTS birthday withdrawal advance had origination slightly above BRL 100 million, and personal non-payroll loans returned to the level of 3Q and 4Q last year, very close to BRL 640 million, after slightly higher origination in the previous quarter.

I would also like to highlight an aspect already mentioned by Gustavo in the introduction, which is our digital origination. Here, I place special emphasis on INSS payroll loan origination: while overall bank origination through digital channels is 80%, for INSS payroll loans—naturally targeted at an older audience—that mark has been continuously growing, reaching 75.4% in 2Q25.

Now looking at credit risk a little bit, the Over 90 rate, on the left-hand graph, shows marginal fluctuation, as previously mentioned, ending 2Q at 2.3%, while the market (which can be seen in the same graph by the white lines indicating the total National Financial System in free resources, or by the darker line, which is retail free resources) has shown unfavorable fluctuation. So, the credit market, regarding delinquency, still requires caution, which we have strived to maintain and, I believe, have been quite successful at, with our Over 90 once again well controlled, despite marginal variation compared to the previous quarter or the same period last year.

In the graph on your right, we have delinquency Over 15 to 90 days, where we had an operational incident worth describing: it was precisely due to changes in biometric procedures triggered by the INSS. These caused an operational mismatch in refinancing operations, making some loans show overdue installments for a few days due to this timing mismatch. This caused the Over 90 to jump as shown in the light blue line on the right graph, reaching 2.6%. However, it is important to highlight two things: first, these issues have already been resolved, and when excluding these adjustments, this metric would have ended 2Q25 at 1.6%. Therefore, in line with or even slightly better than the previous quarter.

And the second point, which I emphasize strongly, is that this metric in no way reflects a deterioration in the Bank's credit portfolio quality, as will be observed going forward. What we really had here was a punctual operational issue caused, largely, by an external factor beyond our control and has already been properly fixed, leaving no harm to the Bank or its client base.

Talking about some other credit risk metrics, the left graph shows the PDD with a slight increase but within normality, reaching BRL 131 million in 2Q25, which makes the percentage of the portfolio provisioned increase, but returning to historical levels at 2.7%. On the right, following Resolution 4966, effective earlier this year, we show the portfolio broken down by stages 1, 2, and 3 overdue, with small fluctuations this quarter. Remembering that about 51% of the stage 3 portfolio is actually current.

Now, talking a bit about service fee income, which is another pillar in the Bank's strategy as it increases customer loyalty, creates more friction for customers to leave the Bank if that happens, and is therefore a measure of customer satisfaction. As has been happening over the past quarters—and this was heavily emphasized by Gustavo—our insurance and assistance offerings have been increasingly successful, reaching 72.4% of our service fee income in 2Q25.

So, this line has been growing, a trend over several quarters, while fee income from tariffs—due to regulatory or competitive reasons—is taking less and less space in Banco Mercantil's service fee income mix, ending 2Q at 21.3%, a year-over-year drop of 13.4 percentage points. Meanwhile, insurance and assistance gains rose 17.7% in the same period.

Therefore, we achieved a quarterly service fee income of BRL 207 million, another consecutive record for the Bank in this metric, which is crucial as it means, as I said, higher retention, greater customer satisfaction, and is also a revenue source that diversifies from credit revenues, besides not allocating capital, which will be fundamental for us to reach the Bank's return levels, which we will see next.

Now, looking a bit at the other side of the balance sheet, the liabilities side, or the funding sources of the Bank, the Bank has historically financed itself mainly through its customer base, accessing very little of the capital markets or even investment platforms, as we will see later. Once again, we had a noticeable growth.

It's important to highlight that the Bank has been able to benefit from an increase in liquidity in the market, which has even made that column—the light blue section, which corresponds to "others," including financial notes—grow. The continuous upgrades, or improvements, in the Bank's risk rating have led resource allocators to direct increasing amounts of capital to the Bank. The Bank has been able to take advantage of this, closing the quarter with a very high cash level—which I will comment on shortly—but this greater allocation by institutional investors has caused that light blue "others" category to grow over recent quarters, finishing 2Q with 20% of our total funding. Meanwhile, our term deposit funding decreased during the period, reaching 74%, still responsible for the majority, by far, of our funding, with structured

operations accounting for 6%. Although we are and want to remain continuously present in the capital markets and also through structured operations.

When we break down this funding by source, as I mentioned earlier, on the left pie chart, 89% of the Bank's funding comes from its own customer base. This includes INSS clients themselves—remembering that not all are borrowers; many are savers, representing 21% of our funding—other clients, both individuals and corporates with different profiles, representing 45% of our funding, and our treasury through financial notes, DPGE, and other bilateral operations such as interbank deposits, which account for 23%. The remaining 11% is divided into 5% through partner platforms and 6% in structured operations.

Speaking a bit more about liquidity, we can observe that the Bank ended 2Q25 with over BRL9 billion in cash, taking advantage of the very liquid market we have seen and also the Bank's ability to access this liquid market. Our liquidity coverage ratio (LCR), which is the short-term liquidity metric monitored by the Central Bank, ended 2Q25 at around 3.x, that is, practically four times the minimum required by the regulatory authority.

Now, we are starting to reach a rather high level, even somewhat excessive, which ends up impacting, as we will see next, our net interest margin (NIM). These BRL9.2 billion in cash at the end of 2Q led to the cash-to-interest-earning assets ratio exceeding 30%, I believe for the first time in the Bank's history, reaching 31%. This metric has shown continuous growth over recent quarters, having started at 21% in 2Q24, which is the first data point shown here.

At this point, we are starting to reach a level that is somewhat excessive and begins to affect the net interest margin, and we expect to see a reduction in these levels over the next quarters to preserve the NIM, and consequently the profitability levels presented by the Bank.

Finally, we introduced in this presentation the net stable funding ratio (NSFR), another metric monitored by the Central Bank, but only required of S1 banks. We have historically calculated this metric and decided to present it to the market, showing that the Bank's long-term funding metric is also very well balanced here, reaching 139% of the regulatory minimum level.

So, the Bank, importantly to say, regarding liquidity—and we will talk about capital next—is in a very comfortable position, with cash levels that we could say are, in a certain sense, even excessive, both in short-term and long-term metrics, with a diversified funding base concentrated in its own channels, which is usually the Bank's funding structure and which I usually highlight as a differentiator compared to peers.

Now, speaking a bit about capital, the Bank closed 2Q25 with a Basel ratio of 17.1%. Remembering, as we described in last quarter's presentation, that we had the adjustments recommended by Resolution 4966, which caused a reduction in the Basel ratio in 1Q, already detailed in the previous presentation. Now, by incorporating the 2Q result, the Basel ratio grew again, as did Tier 1, surpassing 14% and reaching 14.5%, driven by the reinvestment of the Bank's result.

On the top right, we have the reconciliation of this Basel ratio growth, fundamentally indicating a very robust capital position so the Bank can keep growing, gaining market share, and growing above the market, as it has been doing over the last quarters and years.

We really like this slide because it tells a bit of the story and growth dynamics of the Bank over recent quarters and years. So, we present here—not a new slide, but one those who follow us are already used to seeing—where we see in the white line at the top, revenue growing much faster than expenses; operational expenses in the light blue line in the middle, which used to be in the middle, now moving downward due to the cash growth dynamics I just mentioned,

and also the increase—let's not forget—in the Selic rate, given that the funding cost is mostly linked to CDI, causing, for the first time, quarterly funding costs to exceed administrative, operational, and personnel expenses in the same period. These latter expenses have remained quite stable over the last two quarters, which is part of a careful execution process we have undertaken, seeking to capture increasing operational efficiency gains, while the growth in cash volume, combined with rising interest rates, naturally pressures funding costs, impacting the net interest margin, as we will see. However, all this has been offset by the Bank's ability to gain scale and efficiency, as we will observe when reviewing our profitability metrics.

So, speaking a bit about our net interest margin, we saw a reduction due to all the dynamics Gustavo and I have discussed up to here, yet still a margin growth. Remember that we naturally have quite strict hedge policies to minimize volatility in our net interest margin, in which we have been quite successful over time. The NIM closed 2Q25 at 18.1%, a reduction of 0.3% compared to the previous quarter, while our service fee income has shown quarter-on-quarter growth, closing at BRL207 million in 2Q25, as I mentioned.

Therefore, we had a 12% year-over-year growth in NII and an 18% growth in service fee income. By detail, we did not have a record NII here, as it was lower than 4Q24's NII. We did have, as I mentioned, record service fee income, and when combining the two metrics, NII plus service fee income totaled BRL1.34 billion, which is the best mark in the Bank's history, which I would like to highlight.

And all of this combined leads us to profitability metrics that, if not the highest, are among the highest in the industry. Our return on assets (ROA), shown in the chart on the right, has remained practically stable at 3.4%, something that has been occurring for over a year now, despite all the competitive, regulatory, and market dynamics that Gustavo and I have referred to up to here, and with leverage maintained practically constant, the Bank delivers a return on average equity (ROAE) around 46%. This ROAE, as explained in the 1Q25 presentation, was favored by the denominator effect caused by the adjustments from Resolution 4966. However, this naturally affected Mercantil as it did the entire industry. We like to always make this note for clarification purposes.

So, with that, I end my part and hand the floor back to Leonardo to lead our Q&A session. Leonardo, please.

Sessão de Perguntas e Respostas

Leonardo Ferraz:

Thank you very much, Paulino. Let's now move on to our Q&A session. Well, I have a first question here that we received regarding INSS: *"What is the outlook on the difficulties reported in relation to INSS? Have they been resolved, or should we expect them to continue?"*

"Gustavo Araújo:

Fundamentally, the process change started when the scandal at INSS broke out, triggering a series of new controls, particularly concerning improper discount associations. This, of course, is a context separate from the banking sector. However, it was deemed necessary to change all controls on payroll deduction operations, i.e., payroll loans. The safest method available at the time was biometric verification, comparing the client's biometric face data with the most official government database, which is the TSE's digital voter registration database.

So, that's the context. We had a change that brought several operational impacts. What are they? As mentioned, the retired population often doesn't vote, so they may not have their information registered in that database. Even those who vote might not have a digital voter registration. We estimate that 30-40% of the base doesn't have this biometric confirmation in the TSE, which naturally reduces the addressable market. And even those who do have it face two other big issues: First, the company that performs the TSE verification is Serpro, which has bandwidth limits — meaning the total number of biometric comparison attempts in the market is capped. When these limits are reached, as Serpro wasn't scaled for this sudden demand, we don't get adequate response.

Finally, this biometric database can often be outdated, and even if I have the client's current face and a photo from TSE, there may be a mismatch, preventing the continuation of the approval process. All these factors result in a smaller addressable market for those lacking biometric data, and the process becomes much more difficult. It takes much more time. For clients who prefer digital, there are bigger difficulties; for those in physical branches, it means more time spent at the counter. This immediately impacts the market significantly.

For example, looking at June — the last month of the quarter, fully under the new process — we can say without a doubt that origination was two-thirds lower than the historical average, comparing, for instance, with the 1Q. This isn't just due to seasonal salary increases in 1Q; it's a real drop of about two-thirds.

So, this is a sharper decline than the one seen in the unfortunate March 2023, when a lower cap was introduced below the product's minimum profitability. That's the context.

Overall, we believe these adjustments will be positive over time. The idea and intent are very good — aiming to bring more security to the market, which is essential, especially for us working with this audience. Not just at Mercantil, but across the industry, security is fundamental. And again, I repeat, Mercantil has been using biometric verification as its main onboarding method since 2019, but instead of using the TSE database, we use an American company's database, which has over 150 million biometric records, more up-to-date and even submitted directly by the clients.

That's a big difference — the process is smoother within the bank's channels, without needing to switch to government portals like gov.br or the official government systems.

Another point I highlight: We believe — and there is much discussion in industry associations — that this issue will be resolved. The market is sovereign, and payroll loans are a fundamental credit line in Brazil — nearly BRL300 billion, the third cheapest credit line in the country. We believe this issue will be mitigated over time. This change is very recent, and Mercantil plays an important role in the ongoing dialogue to improve the process.

Finally, as a paying bank — meaning the client's main relationship is with us, as they receive their benefits and retirement here — we have competitive advantages to help clients unlock these processes. Whether they receive their payments at our branches or through our app, we have closer contact and better control to assist them with this currently tougher process.

We have already implemented some improvements, such as unlocking through the gov.br silver and gold accounts, and we expect the market to mature. We are seeing more people registering their biometric data in the TSE as well. Overall, the outlook is very positive, and the intention is very good. Although there has been, as shown, a one- or two-month impact on origination in the market, we believe that, in the medium term, we will emerge much stronger and more solid as a system from this issue.

Leonardo Ferraz:

Thank you very much, Gustavo. Now, moving on to the next question. I have a question here regarding private payroll loans: *"How does the Bank evaluate the performance of private payroll loans? Is there an intention to accelerate origination in this credit line?"*

Gustavo Araújo:

So, again, going into a slightly more technical side of the process, private payroll loans have a few stages before we actually see the funds being disbursed. The first stage is the "averbação" (registration/endorsement), and the second is the "escrituração" (accounting/recording), which depends on the company or employer. Throughout this process, the client gives consent for the loan, the Bank disburses the credit operation, and then the company or employer performs the accounting step, acknowledging the discount that will be made and thus the payroll deduction.

This process can take over 90 days from the loan origination, through the endorsement and accounting stages, to the first payroll deduction. Currently, we have three data points: the first batch of the product launch has already seen two payments, and the second batch one payment—so three deductions completed so far, giving us a sense of how the product is progressing.

We understand this is still a very new product with many operational challenges, especially in the accounting stage. Companies still need education on how to perform the accounting correctly, how to report the right amounts, and how to upload the files properly. So, there is a maturity curve. The process itself must become more automated over time. There are also important product improvements coming, such as allowing the use of 10% of the FGTS balance as collateral, and the portability feature, which already has a roadmap.

Mercantil entered this product in 2Q as a pilot and has been closely monitoring how payments are being made and applying its credit criteria. Our outlook here is very positive. By comparison, when the FGTS anniversary withdrawal advance was launched, Mercantil reached 15% market share. Why? Because we are well-prepared with our digital channels, WhatsApp, app, performance marketing—applying all our conversion intelligence and one of the best anti-fraud platforms in the market, including biometric checks.

Even though this product's main target isn't predominantly the 50+ segment, we believe we can leverage our expertise with collateralized loans—endorsement, disbursement, collections, and distribution channels—to build a significant portfolio composition.

So, we are evaluating it, and we believe there is plenty of room for improvement, but it is in everyone's interest that this product becomes better and better operationally. We're talking about nearly 50 million CLT (formal payroll) workers and a portfolio still very small in relation to that potential. Even though last quarter we saw loans between BRL 15-17 billion, it's still a very small portfolio compared to what we can achieve once the operational processes stabilize, and then we can focus solely on credit criteria—which we expect to be very good in the near future.

Leonardo Ferraz:

Very good, Gustavo. Well, everyone, let's move on to the next question, now related to our distribution: *"Given that there is excess capital, is there any outlook for adjustments in the payout?"*

Paulino Rodrigues:

Well, I think I'll take this one. The Basel ratio is elevated... so, let's start with the conclusion. Today, we have no plans to change the distribution, which has basically been the minimum legally required, so that the Bank can continue pursuing growth opportunities that arise, like the private payroll loan Gustavo just mentioned. We might also see a recovery at some point, to some extent, in the INSS payroll loan, which is also expected. We have other investments being made in expansion and technology.

So, to maintain that cushion that allows us to chase growth opportunities, we've been working with Basel around 17%. Another important aspect is that we need to keep Tier 1 capital roughly where it is today, so we can keep expecting improvements in our credit rating, which is part of our strategy regarding controlling our funding costs. That's the second point.

We know rating agencies mainly focus on one metric, which is CET1 above 13%, and we've been careful to stay at that level — it's even in the Bank's Risk Appetite Statement that we maintain this high level to enable further upgrades.

What we might have room to adjust is — I don't know if this is the best word — some inefficiency in Tier 2 capital. There, yes, we have room to reduce the participation of Tier 2 capital in the overall Basel ratio, making our capital structure even more efficient.

But going back to the payout question, it should remain stable over the next few quarters.

Leonardo Ferraz:

Thank you very much, Paulino. Okay, everyone, I have one more question here, now related to our NIM: *"The NIM showed a decline again this quarter. What is the outlook for the coming quarters?"*

Paulino Rodrigues:

Sure, I think this one is on me as well. The NIM, we've been going against the wind here. As we mentioned throughout the presentation, the Selic rate kept rising, and we spoke very little about the ceiling on our main line, which is the INSS payroll-deductible loans, but that ceiling remained stable despite the Selic increasing. Just for context, the average Selic in Q2 was 14.482%, the average Selic Over. In Q1, it was 12.9533%, and last year, the annual average was 10.8395%. So, despite having hedge policies to mitigate the volatility of our NIM, it eventually affects the NIM sooner or later.

Also, the mix effect was somewhat unfavorable this quarter and the previous one, where we saw an increase in the share of INSS payroll-deductible credit in the portfolio at the expense of other lines with higher margins, like the FGTS anniversary withdrawal anticipation, for example. All of this combined led to the reduction in the margin we observed, closing Q2 at 18.1%.

That said, we don't expect the NIM to deteriorate further. It should continue to hover around this level. In fact, any variations we might have — many of which are beyond our control — we understand that the Selic has probably hit a ceiling around 15%, so the Selic stopping its rise is at least a neutral factor if not a positive one. We might see favorable mix effects depending on how the portfolios behave in the coming quarters. Gustavo mentioned, for instance, the private payroll-deductible loan, which has a higher NIM compared to other products in our portfolio. The behavior of non-payroll personal loans could also help us here.

In short, we believe the headwinds for NIM are, by all indications, over, and we might even experience some tailwinds in the coming quarters. This is not something we are counting on, though. Our baseline expectation is some degree of NIM instability.

Of course, we cannot rule out potential tailwinds — I'm not commenting on those here — since we have a very complex geopolitical scenario globally and in Brazil as well. So, we can't exclude the occurrence of exogenous events that might cause interest rates to spike. If that happens, naturally, with our strict hedging policy, we aim to protect the Bank from these effects. But that's basically it regarding the NIM, Leo.

Leonardo Ferraz:

Thank you very much, Paulino. Let's move on to the next question regarding our competitive landscape: *"Good morning, how is the competitive landscape in payroll-deductible loans and INSS?"*

Gustavo Araújo:

The INSS payroll-deductible loan was legislated in 2003, if I'm not mistaken, and therefore it is a quite mature market. So, we have several players — I believe more than 90 registered in the technical cooperation agreement. There are more than 55 banks in active operation. So, it has been a very strong competition for quite some time. Of course, in recent years, we've observed the entry of new relevant players, especially digital ones, but at the end of the day, the competition is very high. It's a game of very tight margins where we need significant competitive advantages, mainly regarding distribution costs. Hence the important focus on payroll origination, especially through digital channels. We need to understand the customer journey to be the paying bank, to increase cross-sell, and to understand how to mitigate — which is why Mercantil has also invested for a long time — fraud levels, which are fundamental in the P&L composition of the product.

Also, delinquency rates — Mercantil Bank, when we zoom in only on payroll loans, has been quarter after quarter more efficient than the market in relation to our actuaries. That is, the main source of payroll loan delinquency is death, and we've been more accurate than the average, which is fundamental.

So, in summary, in a market that has always been competitive and we can say it continues to get more competitive and, let's say, even tougher because competitiveness is high and margins are lower, as we have already mentioned, the ceiling at 85% is lower than expected for a technical reason related to the product or historical spread levels, and the Selic rate has been rising while this ceiling has not been adjusted. In an important competitive scenario, we need to have our competitive advantages to continue, as we have shown here more and more, gaining share not only in payroll loans but also in benefit payments and all the cross-sell that comes with this customer.

Leonardo Ferraz:

Very good, Gustavo, thank you. Well, everyone, we are already approaching the end of our presentation. I will ask one more question here, this one related to our geographic expansion: *"Will the pace of branch openings continue in the second half of the year? What is the strategic rationale behind the cities chosen?"*

Gustavo Araújo:

We strongly believe in our thesis, Mercantil's thesis, which is based on the age pyramid segment that is growing the most, consumes the most, and obviously has the largest profit pool in Brazil when we look at the sum of NII plus services. This corresponds largely to that expanded payroll-deductible loan portfolio we're talking about in the country, which exceeds BRL700 billion.

So, despite the unfavorable NIM headwinds due to Selic and operational unlock issues, we believe this is a very important market and we will continue investing in our thesis. Hence, our cash levels and capitalization levels — we believe they allow us to capture well, distribute, and bring this very strong value proposition to more and more customers.

This strategy unfolds from branding — how the bank positions itself on the country's major media outlets to be recognized as the main bank for its target audience — to, obviously, digital channels and digital media, the entire customer acquisition strategy. And, of course, the 50+ segment often prefers physical channels to have human service. We have here an important training methodology, interesting commercial productivity, a very well-trained team to serve this client well, and we intend to expand this strategy through all the tools we have up our sleeve: branding, digital, and, of course, physical.

By way of comparison, we can say that 75% of our operation was concentrated in the Southeast until the end of last year, and even so, we hold the position of being the fifth largest payer of INSS retirement benefits in Brazil. So, our big question is: "Imagine what we can achieve by expanding this physical strategy to other municipalities across the country?"

But there are some limits as well. We take into account the population size in each area, the percentage of retirees in that customer base, the level of competition locally, and then we map Brazil's large centers. We understand that placing our sign, opening an agency, and having our staff on-site greatly supports this strategy. But without losing sight, of course, that digital will be — and already is — increasingly part of the entire banking system. The new cohorts of retirees already show — there's a chart in this presentation — that 80% already prefer the app as their main channel, not to mention the success of Pix. So, it's important to understand that expansion must be meaningful but moderate, especially relative to competition.

We believe we have a competitive advantage compared to 100% digital banks by also having a physical presence, but compared to banks that do have physical presence, because our digital is so strong, we achieve much greater efficiency. When we enter a market with the strength of digital, we gain a much larger share. So, we believe that with fewer branches than our competitors — we currently have 313 — we will continue expanding but without targeting an excessive number. That would also go against the trend, not only for the 50+ segment but for the entire banking system in Brazil and worldwide.

So, this is how we position ourselves, and we believe this gives us significant differentiators to continue pursuing our thesis and our purpose of being the best ecosystem for this target audience.

Leonardo Ferraz:

Thank you. Well, everyone, we are now moving towards the conclusion of our presentation. I would like to remind you that the remaining questions will be answered directly to the person who asked them by the Investor Relations team. For any additional inquiries, please feel free to contact the IR department using the contacts that will be available on the screen.

So, I would like to thank Gustavo and Paulino for the presentation and wish everyone following us an excellent day!