Josias de Matos:

Good morning, everyone. Welcome to Banco Mercantil's 4Q24 earnings conference call. My name is Josias, and I represent the Investor Relations team. It is a pleasure to have you with us today.

This morning, we are joined by Gustavo Araújo, the Company's CEO, and Paulino Rodrigues, our CFO, who will present the key results and highlights of the quarter.

I would like to highlight that this conference call will be recorded, and both the recording and the transcript will soon be available on the Investor Relations website. The supporting materials used today are also already available for download on the website.

At the end of the presentation, we will open the floor for a Q&A session. You may submit your questions via the Q&A tab located in the bottom toolbar of your screen or through WhatsApp by scanning the QR code that will be displayed throughout the presentation.

With that, I turn the floor over to Gustavo Araújo, our CEO, to begin our presentation. Gustavo?

Gustavo Araújo:

Good morning, Josias. Thank you. Good morning, everyone, and thank you for your time and attention. It is with great pride that we announce today our ninth consecutive record quarterly result of BRL205 million, marking the best year in Banco Mercantil's history, with a net income of BRL752 million - an increase of 79% compared to 2023. This achievement also positions us among the highest average returns on equity in the banking industry at 41.3%.

In recent years, Mercantil has been pursuing growth significantly above the market average without compromising quality. Looking at the chart on the left, we have grown at an average annual rate of 28%, surpassing the milestone of 9 million clients. This growth is proportionally reflected, as shown in the middle chart, in our main driver of results - our credit portfolio - which reached BRL17.1 billion during the period, growing 24% over the past years despite the tightening monetary cycle and historically low spreads on our key products: payroll - deductible loans (INSS) and FGTS early withdrawal advances, both of which are subject to historically low interest rate caps.

And all of this was achieved without sacrificing quality. Over the past years, Mercantil has been steadily improving its delinquency indicators - particularly the over-90-day delinquency rate, which reached 1.68%, likely the lowest in the banking industry during this period.

This growth, despite a challenging scenario, can be attributed to the combination of two key strengths of Banco Mercantil when we analyze distribution channels: our physical branch network, coupled with strong and exponential digital expansion, backed by significant investments. This strategy ensures that the marginal distribution cost of our main collateralized products remains highly competitive.

In 2024, the Bank, already the fifth-largest payer of benefits in Brazil, expanded its network to 13 new states and 20 new municipalities, replicating a proven model - especially in the Southeast and Midwest regions—across nearly the entire country. Additionally, 30 new branches are currently in the pipeline for inauguration throughout early 2025.

All of this, reinforced by the data on the right side of the screen, which presents the historical results of the 2024 INSS bidding process, covering the period from 2025 to 2029. In this process, Mercantil secured a leading position - ranking first, second, or third - in 20 states, highlighted in blue on the screen. Additionally, our customer acquisition cost (CAC) was 30% lower than in Auction 3, the 2019 bidding round. We achieved this market share with a strategically distributed branch network across Brazil, supported by the strength of our digital strategy.

Looking at the left-side chart, we can see the share of the Bank's credit origination through digital channels. In 2021, this figure stood at 10%, rising to 28% in 2022, then 38%, and ultimately reaching 70% in 2024.

In other words, 70% of our credit production—the Bank's main growth driver—was originated either through our mobile app or via WhatsApp. Specifically, 39% of this production took place through WhatsApp, leveraging a streamlined customer journey designed for those who are more comfortable using this platform than a banking app. This pioneering and highly successful strategy has become a core pillar of our digital expansion. Meanwhile, 31% of the 70% total came from our mobile app, which was specifically developed for the 50+ audience. The right-side chart shows that app adoption more than doubled over the period, reflecting the strong engagement of this customer segment.

All of this has been achieved through one of the most successful digital transformation journeys, from architectural design to cloud migration, in partnership with Google Cloud Services. This has strengthened our digital infrastructure, positioning us to fully embrace advancements in Generative AI.

In summary, as we often say, we adapt our technology to our customers—rather than forcing our 50+ audience to conform to existing market standards.

Beyond our channel strategy, we have also developed a specialized product strategy tailored to our target audience, reinforcing our purpose: to be the best and most complete ecosystem for the 50+ segment.

Since the launch of the Meu+ platform, we have reached over 2 million active assistance services. Over the past year, we have seen a 55% increase in recurring customers and a 120% growth in monthly sales. Meu+ offers a wide range of solutions, including healthcare, pharmacy benefits, wellness services, gym memberships, education, and tech assistance, which also supports the Bank's digital strategy. Additionally, it provides discounts at pharmacies and other cross-sell opportunities, further strengthening our value proposition for 2025.

This integrated strategy—spanning both products and distribution channels—has not only translated into strong financial results but has also been recognized by credit rating agencies. As shown in the chart, year after year, and quarter after quarter, the Bank has received successive rating upgrades. Last year was no exception, with double upgrades from both agencies. Moreover, as seen in the right-side charts, this recognition has extended to the stock market, where Mercantil's shares recorded the highest appreciation over the three-year period covered in this presentation, outperforming all other listed stocks in the country.

So, before we dive into the quarterly highlights, I would like to take a moment to express my sincere gratitude to our entire team. We are incredibly proud to have been recognized in 2024 as one of the top four financial institutions to work for in Brazil, according to the GPTW ranking. More importantly, the driving force behind our journey and strategy is a strong culture of execution discipline, commitment, and, above all, entrepreneurship and adaptability in the face of challenging scenarios. So, a special thank you to our team and an optimistic outlook for everything ahead in 2025, which we are just getting started.

Having reviewed the year as a whole, let's now focus on some key quarterly highlights. Starting with our customer base, which, as mentioned, has reached 9 million clients. Our credit portfolio stands at BRL17.1 billion, representing a 22% increase compared to the same period last year - growth achieved with quality, as evidenced by our delinquency rate of 1.7%, significantly lower than the market average for unsecured consumer loans, which exceeds 5%.

Zooming in on our INSS payroll loan portfolio, it reached BRL10.8 billion, marking a 39% growth - 4.9 times the market growth rate - despite the product's lowest interest rate cap in history and the ongoing monetary tightening.

To illustrate, in December alone, we captured over 11% of the national payroll loan origination share, even with stricter credit policies compared to the market average. What does this mean? Our over-90-day delinquency rate for payroll loans is at 1.1%, while the market average stands at 1.6%. In other words, despite our more selective approach, we continue to gain significant market share and expand our core credit product.

Service fee revenue grew 19%, reaching BRL180 million, driven by the launch of Meu+, our platform. This resulted in a quarterly net income of BRL205 million, a 36% increase year-over-year, leading to one of the highest ROAEs in the industry at 41.3% - an expansion of 11.5 percentage points. Additionally, our Basel ratio remains at a comfortable 18.1%, with a Tier 1 capital ratio of 14.8%, positioning us among the most well-capitalized banks in the industry.

To provide further insight into the Bank's quantitative aspects, I will now hand it over to our CFO, Paulino. Good morning, Paulino.

Paulino Rodrigues:

Good morning, Gustavo. Thank you very much. Good morning to everyone following the disclosure of our 2024 earnings results.

Now, I will provide a bit more detail on the quarterly numbers. Gustavo focused heavily on the annual figures, showing the evolution of Banco Mercantil over the last few years, and now we will give more color to the performance aspects of the Bank in 4Q24.

Let's start with our credit portfolio, which grew by 22%. We'll first talk about the portfolio as a whole and then dive into the main components. As you can see in the graph, the total portfolio grew by 22%, ending the year at BRL17.1 billion, while the financial system, in terms of unsecured consumer loans for individuals, which is our primary benchmark, grew by 12.3%. Therefore, we grew almost twice as fast as the market, a trend that has been consistent in recent years, and 2024 was no exception.

Looking at the components of the portfolio, starting with our main segment - the payroll-deductible loans (INSS) portfolio - it ended the year with a 39% growth, reaching BRL10.8 billion. This growth represents three times the 13.5% growth rate of the national financial system's payroll loan market, specifically INSS loans.

This portfolio, and we will talk about its origination next, continues to grow. However, due to market conditions - which we will discuss further in a moment - origination slowed somewhat in 4Q compared to the exceptional growth of nearly BRL1 billion in the previous quarter. Even so, it remains a highly profitable portfolio, and it will continue to be the Bank's flagship product, fundamental in our relationship with our 50+ client base, especially those receiving INSS benefits. This product is an important retention tool.

Moving on to the FGTS birthday withdrawal anticipation portfolio, this portfolio has been somewhat stagnant over the last few quarters. It's a product that has been losing depth, as the majority of customers who were eligible to access this line have already done so. As a result, we have been able to basically cover the amortization of the portfolio with new originations - and, as I mentioned, we will talk about origination in the next slide - which has kept the portfolio relatively stable, around BRL3 billion. It's still an important portfolio, one that we are very fond of, but it is indeed losing depth in the market.

Now, for our personal unsecured loan portfolio, a positive highlight here is the BRL200 million growth in a portfolio that is key to the overall mix and profitability of the Bank's portfolio. This represents a 15% year-over-year growth. As I mentioned, while the absolute growth may not seem significant, it plays a crucial role in the Bank's profitability mix.

In fact, over the last three years, we've seen an average annual growth of 24%, while the market has grown by 9%-10% during this period, which has allowed the Bank to steadily gain market share quarter after quarter.

This trend continued in 4Q24, where, despite a drop in origination from nearly BRL3.5 billion in 3Q to just over BRL3 billion in 4Q, it is essential to consider the complex market dynamics at play. In particular, our main portfolio, the INSS payroll-deductible loans, is currently facing very narrow spreads, which, in a rising Selic rate environment, has led to a reduction in origination across the market, including the recent slight adjustment in interest rate caps.

For example, market origination in 4Q24 was BRL21.7 billion, significantly lower than in the previous quarters of 2024 - BRL29 billion in 1Q, BRL25 billion in 2Q, and BRL27 billion in 3Q. This clearly indicates that the market has lost momentum due to tighter margins and spreads.

Despite the reduction in the Bank's origination, as seen in the graph, Banco Mercantil's market share in origination reached an all-time high in December, reaching 11.3%.

We should note that all of the Bank's origination today takes place through its proprietary channels, whether through our network or the digital channels previously presented by Gustavo. I will elaborate a bit more on this shortly, but specifically focusing on payroll-deductible loans, Mercantil has consistently managed to maintain delinquency levels - shown in the graph to the right - below the market average.

The actuarial management of this portfolio, understanding the appropriate terms and volumes to offer specific client profiles, is part of the expertise the Bank has developed since launching this product back in 2003. This extensive experience gives the Bank, as highlighted again in the graph, the ability to deliver some of the best results in the industry.

To briefly touch on the other origination aspects, as we've already discussed, the FGTS birthday withdrawal anticipation portfolio has been losing momentum. A positive highlight here is that we managed to repeat the origination number for personal unsecured credit, as mentioned earlier, which is crucial in the Bank's portfolio mix and profitability. We again achieved over BRL600 million, precisely BRL638 million in 4Q24.

As mentioned earlier, this growth is driven by highly effective risk management, with the Bank's cost of risk steadily decreasing over the past few quarters. This trend continued in 4Q24, where the delinquency rate above 90 days, as shown in the graph to the left, reached one of the best levels in the Bank's history, and certainly the best level in recent quarters, standing at 1.7%. This is an improvement of 20 bps compared to the immediately previous quarter.

When comparing this to market data, specifically the dark line on the graph to the left, which represents the aggregated data from the Brazilian Financial System (SFN) for personal free resources, the market saw a small decline to 5.3% during the period, but still remained at a much higher level than what the Bank achieved.

Looking at the right-side graph, which displays the delinquency rate for loans aged 15 to 90 days, an early indicator for the over-90 delinquency rate, we see stability in the Bank's performance at an excellent level of 1.4%. Meanwhile, the SFN for free personal loans as a whole increased from 2.2% to 2.5%, presenting a second consecutive quarter of deterioration.

All of this leads us to a reduction in the Provision for Loan Losses (PDD), which reached BRL377 million, a decrease of just over 22% compared to the previous year. The percentage of the portfolio represented by this provision also dropped to 2.2%, a reduction of 1.3 percentage points compared to 4Q23.

On the right side, we see the portfolio that generates interest income—our AA to C-rated portfolio - which once again grew, as it has over the past few quarters, reaching 96%. In our view, this is an excellent performance for a mass-market personal portfolio like Banco Mercantil's.

Another key component of the Bank's performance and customer relationships is the ability, as Gustavo mentioned, to create an ecosystem that is highly aligned with customer needs and fosters loyalty. By doing so, this has helped the Bank's service revenue grow quarter after quarter. This growth has been particularly driven by the insurance and assistance services, which, thanks to the ecosystem shown by Gustavo with the Meu+ platform, have been gaining a larger share of service revenue. Meanwhile, bank fees have been steadily losing share, due to both competitive pressures and regulatory factors.

The key takeaway here is that the Bank has been successful in fostering customer loyalty and extracting significant service revenue, which is vital for the Bank's profitability and customer retention. We reached a new record in service revenue (RPS) in 4Q24, reaching BRL180 million for the first time.

Looking now to the other side of the balance sheet, specifically the liabilities, here we find another competitive advantage for Banco Mercantil compared to other mid-sized banks - its ability to finance itself significantly through its own distribution channels. This allows the Bank to maintain a cost of funding below the CDI, at 99.6% for the past year, with the majority of funding coming from time deposits, specifically CDBs, which accounted for 75%.

Structured operations, which refer to operations accessing capital markets outside the Bank's own distribution channels, dropped to 7%. A highlight for this quarter was the significant growth in bilateral lines, particularly financial letters in bilateral operations, which boosted this share from 14% to 18% in our funding mix.

The Bank benefits from continuous upgrades and positive changes in its credit rating, which naturally increases its visibility to a wider range of institutions. This, in turn, makes these operations more timely and favorable in terms of cost.

Regarding funding liquidity, 85% of the Bank's funding comes from its own channels. This includes 23% from INSS clients, who are also borrowers, and 20% from depositors who are investors. Another 43% comes from our own commercial network, serving both individuals and businesses. Lastly, our treasury is responsible for 19% of funding, primarily from bilateral operations.

The remaining 15% of the Bank's funding comes from investment platforms and capital market operations, which are significant but make up a smaller portion compared to other mid-sized institutions.

Regarding liquidity, we ended the year with a cash position of BRL7.13 billion, a solid figure given the Bank's total assets of just over BRL26 billion. This gives the Bank strong short-term liquidity, with a liquidity coverage ratio (LCR) of 3x the minimum regulatory requirement.

Finally, another important highlight is that we achieved 25% cash-to-interest-earning-assets ratio in 4Q24, which is quite high. This reflects the Bank's strong liquidity position and has been steadily rising over the last few quarters, having been 16% in 4Q23.

Of course, while this high level of cash provides comfort and enables the Bank to keep growing at its current pace, it does have some impact on the net interest margin (NIM), which we'll discuss shortly.

Now, turning to capital, as shown in the graph on the left, the Bank reached a Basel ratio of over 18% in 4Q24, specifically 18.1%. Considering the regulatory minimum of 10.5%, it is clear that the Bank has a significant capital cushion. This is part of the institution's strategy, especially in a time when access to capital markets is challenging due to macroeconomic conditions.

On the other hand, the Bank has substantial growth opportunities, whether through increasing the credit portfolio, investments in technology, or expanding our physical network - all of which were discussed earlier by Gustavo.

Our Tier 1 capital stood close to 15%, at 14.8%. This supports our strong credit ratings, which were mentioned earlier: an AA- with a stable outlook from S&P and an A+ with a positive outlook from Fitch.

A key factor in this strength, and we'll discuss profitability shortly, is the Bank's operational efficiency. We've presented a three-year growth dynamic in the graph, going back to 4Q21. As you can see, the Bank's revenue (including credit, service revenue, and treasury gains from securities) grew from BRL771 million in 4Q21 to BRL1.872 billion in 4Q24, reflecting an average annual growth of 34.4%. Meanwhile, administrative expenses (shown by the light blue line in the middle of the graph) grew at a slower pace of 12.8%, from BRL565 million to BRL811 million.

The cost of funding naturally increased, given the significant rise in the interest rate during this period, along with a volume effect due to the Bank's growth. The average growth in funding costs was 52.5% during this period (represented by the dark blue line at the bottom of the graph). However, thanks to the Bank's management of assets and liabilities, as well as its credit policies and market strategies, it was able to maintain relatively stable net interest margins (NIM).

As a result, we saw the NIM remain steady in 4Q, which was a positive outcome given that we are in a rising interest rate cycle. This is compounded by historically low spreads on our main product, the INSS payroll-deducted credit. Even though we had expected a slight reduction in the NIM from 20.6% in 3Q, we were pleasantly surprised to see it increase marginally to 20.8%, which was very satisfactory.

This combination of stable NIM and service revenue allowed us to maintain high levels of profitability. In 4Q, we achieved a return on assets (ROA) of 3.4%, one of the best in the industry, if not the best. Our leverage ratio has remained stable at 12x throughout all the quarters displayed, leading to a slight increase in return on average equity (ROAE), from 41.1% to 41.3%, which is again one of the best metrics in the Brazilian banking industry.

With that, I conclude my presentation and hand the floor to Josias for the Q&A session. Josias, please.

Participant 1 (via webcast):

Congratulations on the 2024 results, truly impressive. What are the prospects for 2025 with high interest rates, a cap on the payroll loan and low INSS benefits, and a complicated macroeconomic context? Is it possible to maintain this growth and profitability pace?

Gustavo Araújo:

Fundamentally, we need to analyze the industry we are in. And we are in a context of lows, we lived through 2024 with the payroll loan cap at 1.66% for INSS and 1.8% for FGTS, and we are in a monetary tightening cycle, where our models indicate that the Selic rate and the base interest rate will reach 15% to 15.5% terminal Selic, which causes this mismatch between the asset side of the balance sheet and the financing cost. Although we have our hedge and ALM policies in place, there is still this gap, which is felt throughout the industry.

So, since we don't control the cap, which was adjusted slightly at the beginning of the year to 1.80%, a figure far below expectations, and also below what we compare with the future Selic rate and the DIs, what is expected in the upcoming Copom committees, we believe that the spread is still very tight.

Therefore, the only variable we can control, as shown earlier, is the perspective of credit loss. So, actuarially, we make our calculations and end up granting limits in terms of time and for clusters that we currently understand have a lower expected loss.

This is visible in the market. When we look at the historical series, the payroll loan generally has a loss rate of 1.9% to 2.1%, and the market is already at 1.6%, and Mercantil has also significantly reduced this historical average to 1.1% in over 90 days for payroll loans. This results in a lower volume of payroll loans granted in the industry as a whole, which can be observed, for example, in the market data from the last quarter.

Despite this, we believe there is this funding cost advantage, the advantage of understanding these actuarial calculations, and all the advantages in channels and cross-selling, which allow us to at least partially recover these margins.

So, in relative terms, we have been able to grow much faster than the market. Two data points stand out complementarily. When we compare the growth of the Bank in payroll loans as a whole, including INSS and public servants, for example, we grew 4.9 times the market, and when we compare INSS payroll loans, we grew 3 times the market. Mercantil managed to continue growing, while the market grew at a slightly lower pace compared to the natural growth in recent quarters, which also pushed Mercantil's market share to a record of 11.4%, according to December's data.

So, we need to analyze all this context, but in the end, what we expect is to hope for a more rational cap, to bring back the group currently excluded from credit policies, which would make the market, not just Mercantil, return to historical growth levels. We hope the cap for these payroll loan products remains rational as the Selic rate rises in this monetary cycle, but we remain quite optimistic about the Bank's overall thesis, with the marginal distribution cost lower than peers, auction results, physical expansion, and digital expansion as well.

So, even though we don't provide guidance, we intend to continue growing, always observing risk and market returns, calibrating the best indicators so that we can pursue this growth sustainably.

Participant 2 (via webcast):

With such a comfortable Basel ratio, above 18%, why does the Bank choose to maintain this capital surplus? Are there plans to reduce this excess?

Paulino Rodrigues:

Indeed, we currently have a Basel ratio of 18.1%, which, as I mentioned in the presentation, is well above regulatory requirements. However, for the time being, we believe that although it is high, it is important to maintain a capital cushion given the Bank's growth prospects mentioned throughout the presentation.

So, we are making investments in technology, physical expansion, and naturally, we need capital to support the growth of our credit portfolio, which is growing nearly 3 times faster than the market.

Additionally, there is the current difficulty in the capital markets. So, we understand that the market is quite complex when it comes to raising resources in the market.

For all these reasons, and in order to avoid having to give up growth opportunities, considering the dynamics we've observed in the past few quarters, we believe it is appropriate to maintain a capital cushion, with no plans to, for example, increase payout or take any other actions that would reduce the Basel ratio.

I would also like to inform you that yesterday, after the market closed, we announced the payment of interest on complementary capital, in addition to the amount being credited to our shareholders' accounts, totaling just over BRL2.4 million, which will be paid on February 19, with the ex-date for the shares set for February 10.

Of course, this will not significantly impact the Bank's capitalization ratios, as it is a small amount, but I just wanted to keep the shareholders informed.

Participant 3 (via webcast):

What is your view on the announcement regarding private payroll-deductible loans linked to eSocial? Could this have an impact on Mercantil as early as 2025?

Gustavo Araújo:

We see the entire discussion around private payroll-deductible loans as an opportunity. Currently, the private payroll loan industry is well below its potential, and all these changes being discussed—such as eSocial and the guarantee backed by FGTS—could truly boost the product, bringing it to much higher levels than today.

Mercantil, as a retail distribution player specializing in collateralized products, holds a strong position in the payroll loan segment. In fact, since the launch of FGTS birthday withdrawal advances, the Bank has also played a significant role in that market.

We are closely monitoring the final adjustments to this product, as certain variables could have a major impact, such as the FGTS collateralization percentage and whether there will be an interest rate cap, which would help determine the product's market depth and risk profile.

That said, if the product is structured in an attractive and efficient way—both in terms of distribution channels, processes, and verification procedures—we believe we could take a leading.

Participant 4 (via webcast):

With the Selic rate in an upward cycle, how has the Bank managed the impact on funding costs and NIM, and what can we expect for 2025?

Paulino Rodrigues:

The interest rate hike cycle is in place, as Gustavo just mentioned. We are expected to reach 15%, with some forecasting 15.5% or even higher as the terminal Selic rate. This, of course, puts pressure on the funding costs of the entire Brazilian retail banking sector, given that funding is mostly tied to the CDI, which in turn is linked to the Selic rate.

That said, we believe we have been managing our ALM quite well, allowing our NIM to remain relatively stable. In fact, we even saw an increase this last quarter, from 20.6% to 20.8%, as I just presented.

However, it is undeniable that, given the current trend and market dynamics—especially concerning the cap on payroll loans—spreads are under pressure. Our view is that NIM will likely be pressured throughout 2025. Nothing drastic, but it is expected—though we don't provide guidance—that this trend, which was already evident in 2024, will continue.

This is part of the industry structure. Of course, with the improved credit ratings the Bank has achieved, we have been able to secure increasingly cheaper funding across different markets.

In summary, what we have been doing—and believe we will continue to do—is offsetting potential NIM reductions through efficiency gains. This ensures that return metrics such as ROAA and, consequently, ROAE remain strong, delivering returns above the Bank's cost of capital, as we have consistently achieved over the past quarters and even years.

Participant 5 (via webcast):

How has the Bank progressed in implementing Resolution 4966?

Paulino Rodrigues:

With Resolution 4966, the entire financial system is now entering a period of implementation.

This is a project that we at the Bank started in 2021, led by various teams, including technology, controlling, and risk management. It has been a project that spanned the entire institution.

The first point I'd like to highlight is that, in terms of project execution and now putting it into practice, we have performed very well compared to the industry.

Another key aspect, which I believe is what the question aims to address, is the actual impact of this resolution compared to the BACEN gap that we just presented. It's important to note that the Bank reports under IFRS, and the financial statements are available on the investor relations website for those who wish to review them.

To directly answer the question, I would say the following: we have mentioned in different forums, and it was our initial estimate, that our impact would be below 10% of equity. That was our working assumption.

Now that we are in the final stages, with all new models in place, our approach—and this is something we've seen across the market—was to be slightly more conservative in our modeling. As a result, we anticipate a slightly higher impact than initially projected. We are now looking at an impact ranging between 10% and 15% of equity.

Even so, if we consider the broader context of mid-sized banks in Brazil, what we have seen in discussions with industry associations is that most institutions are experiencing impacts above 20% of their equity. This means that our impact remains significantly below the market average. We have chosen a more conservative approach in our modeling, which we can naturally adjust over time. However, for now, we are revising our expectations to an estimated impact of around 10% to 15% of equity due to the implementation of Resolution 4966.

Participant 6 (via webcast):

The delinquency rate for payroll loans has been decreasing more than the overall market delinquency rate. What is driving this trend? Could it be due to a closer relationship with clients, given the Bank's own distribution network?

Gustavo Araújo:

I believe that having a closer relationship with the client greatly helps with retention, reducing loan portability, and driving cross-sell opportunities for other products. However, when it comes specifically to the reduction in payroll loan delinquency over 90 days, it is primarily due to our stricter credit criteria in response to the lower interest rate cap and the higher Selic rate.

So, to directly answer the question, having deeper insight into the client—understanding their financial behavior, having their main banking relationship with us, and tracking their transactions—does provide us with more data, which in turn improves our actuarial models for credit loss estimation. However, the main factor at play here is that we have become more selective in our credit approvals, granting lower limits and shorter terms to customer segments we consider higher risk.

While client proximity certainly contributes to other aspects that enhance the Bank's overall profitability, it is not the primary driver of the decline in payroll loan delinquency.

Participant 7 (via webcast):

The funding balance grew by 35%, while the loan portfolio increased by 22%. What is the strategy behind this? In other words, why is funding growing faster than the loan portfolio?

Paulino Rodrigues:

First of all, the Bank's policy is always to maintain comfortable cash levels. However, I presented this earlier, the LCR, for example, grew and reached 3x the minimum required by regulations, and this happened much more due to a market opportunity context rather than a change in the Bank's policy.

Of course, we have had significant growth in the loan portfolio, but it has been lower than the growth of liabilities observed, especially in the last quarter.

What we believe happened is a large flow of resources, mainly towards assets and private credit funds, observed in the last quarter, as I mentioned. And this, given the Bank's credit rating, ended up providing an opportunity for the Bank to keep cash levels slightly higher than usual. In fact, we are at a level above what is typical for the Bank, but we took advantage of a market opportunity to reinforce cash at an attractive funding cost.

So, basically, that's it. We understand that this was a localized move. From what we have observed in the market, this flow has slowed down a bit, but the Bank, given its credit rating and its relationships with different market participants, had the opportunity, primarily, to make bilateral transactions through financial bills, which were important, even for extending portfolio terms at attractive costs. It was an opportunistic situation that we were able to take advantage of.

Josias de Matos:

Thank you, Paulino. We are now nearing the end of our event. The remaining questions will be answered directly to the individuals who asked them by the Investor Relations department. For any further questions, feel free to reach out to the IR team through the contacts that will be displayed on the screen.

So, I would like to thank Paulino and Gustavo for the presentation, and wish everyone who is following us a great day.