

Marina Magalhães:

Good morning. Thank you for waiting. Welcome to the Banco Mercantil's conference call regarding the results of the 3Q23. My name is Marina Magalhães, I am responsible for the Investor Relations area.

With us today are: Paulino Rodrigues, CFO and Gustavo Araújo, CEO.

This event is being recorded and will be available on our IR website, as well as its transcript. The material for this presentation is already available on the website for download. At the end of the presentation we will have a question and answer session, questions can be sent through the Q&A icon, on the bottom bar of the screen.

For the beginning of our presentation, I hand over to Gustavo.

Gustavo Araújo:

Good morning, Marina. Good morning, Paulino. Good morning to everyone who is watching us. It is with great satisfaction that I share with you today the results of the 3Q23 of Banco Mercantil. As you can see, our net income reached BRL102 million, growing 155% when compared to the same period of the previous year.

This represents a quarterly ROAE of 28.8%, one of the highest in the industry and a ROAE of the last 12 months, last twelve months of more than 25%, also one of the tops of the industry in this disclosure. If we compare the accumulated result in the last nine months of 2023 with that of the same period of the previous year, we also observe a growth of 100%, going from BRL 135 million to BRL 271 million.

This is the result of a very strong execution towards our inspirational purpose of being the best Bank for the 50+ public. This all justifies this very encouraging result, which we will touch on throughout this presentation of results.

Initially, I would like to highlight one of the great growth levers of the Bank, one of the great engines of generating this result of the Bank, which is our technology and, more specifically, our digital businesses. With an application designed with an experience totally focused on our 50+ audience, we reached the mark of 36% of our amount of consigned contracts carried out through self-service in the Bank's own application.

Another important highlight is the exponential escalation of our WhatsApp channel, launched just over a year ago, and which already represents 26% of all loan contract origination of Banco Mercantil. This is a favorite channel not only for Brazilians, but especially for Brazilians over 50 years old.

In numbers, we can see on the left, below, the origination via WhatsApp jumping from BRL 77 million in the 3Q of last year to BRL 266 million in the 3Q of this year, a jump of 243%. These annualized numbers already represent more than BRL 1 billion in origination in this new channel of the Bank.

One of the great highlights, which is WhatsApp, not only in relation to business, but also in relation to problem solving. Our customers use WhatsApp to solve doubts, hire and cancel other types of products and services. There were more than 7.2 million calls answered via WhatsApp in the 3Q of this year, a growth of 264% when compared to the previous same period.

And here I highlight that 92% of these attendances are carried out through our bot, that is, our artificial intelligence applied to better problem solving and solutions for our customers. So, great highlight for our digital lever, which is also largely responsible for acquiring new customers.

Customers who jumped more than 2 million in number between the same period of the previous year. We went from 5.7 million customers to more than 7.7 million customers, that is, a growth of 34% in the period, totally leveraged by this exponentiation of our two main digital channels, the App and WhatsApp.

These customers jumped more than 2 million in number between the same period of the previous year. We went from 5.7 million customers to more than 7.7 million customers, that is, a growth of 34% in the period, totally leveraged by this exponentiation of our two main digital channels, the application and WhatsApp.

Banco Mercantil not only grows customers, but grows customers with a specific focus, that is, in their majority they are the 50+, they are customers who seek the Bank to do business, as shown by the graph on the left below, of the number of customers who have some credit operation with the Bank, which jumped from 39% to 51%.

Half of our customers have a credit operation with Banco Mercantil, that is, they use the Bank as their main Bank, hire other products and services. Our cross sell index is more than three profitable products per customer, that is, we are talking about almost 20 million products sold in our customer base.

So, it is a customer base that grows and digitizes and that does cross selling, that uses the Bank as the main Bank, as the Bank that pays its salary, as the Bank that pays its benefit.

What qualifies us, once again I repeat, our position as the fifth largest benefit payer Bank in the country, again, in a scenario so competitive and concentrated as the Brazilian banking scenario. These engaged customers drive all this result that the Bank has been presenting in the last quarters.

And finally, before passing the word to Paulino, I bring some numbers from the quarter, some financial numbers, which will be explored throughout this presentation. Starting with the credit portfolio, a growth of 29%, reaching BRL 13.3 billion. It was a growth well above the market average, more specifically individuals, free resources from the Central Bank series that grew 9% in the period.

So we grew 29% of credit portfolios against a comparable growth of 9% of the market. But it is a growth with quality, concentrated in sovereign risk portfolios. As is the payroll loan that grew 22%, reaching BRL 7.3 billion and the FGTS anniversary withdrawal that grew 122% in the period. It is an almost fully digital product, reaching almost BRL 3 billion in the period.

Together, the two sovereign risk portfolios represent more than 75% of the Bank's credit exposure. This mix and all the intelligence and technology of the Bank applied to credit granting in origination leads to a default of 3%, with a marginal drop of 20 bps in the period. One of the lowest defaults, almost half when compared to the market average of the National Financial System, also in the period.

As I said, these customers hire in their majority, 51%, not only credit operations, but also other products, services, medical, dental assistance, products from our Marketplace, insurance, that is, a whole portfolio focused on this purpose of this target audience of the 50+.

This leads us to a service revenue of BRL 152 million in the period, in the quarter, with a growth of 38%. That is, customers, the base grew 34%, service revenue we grew 38%. The Bank grows customers and businesses at a very similar pace.

With a very loose and favorable capitalization. We reached a Basel III Ratio of 16.4%, growth of 140 bps when compared to the same period of the previous year. Despite the fact that we

have grown 30% of the risk exposure of the Bank's credit portfolio, that is, an optimization of RWA, the Bank's capital allocation in favor of its customers and its result.

With a very comfortable financial margin. The net interest margin above 20%, specifically 21.3%. It was a growth of 150 bps in relation to the same period of the previous year. We expect this margin to be favored by the successive falls in Selic, although this fall is a little more moderate than what we expected in the last disclosure.

And we also expect that the average default of the market, as this carry cost with this monetary easing reduces the default as well, not only of the system, but of Banco Mercantil. Well, all this leads us to our quarterly ROAE of 28.8%, a growth of more than 15p.p. One of the highest of our peer group, one of the highest in the market.

If we compare the last 12 months, last twelve months, above 25%, coming from this quarterly profit of BRL 102 million, that is, the Bank managed to stabilize this historical level of profits above BRL 100 million, which is very encouraging and also represents a growth of 155% in relation to the same period of the previous year.

Well, today's presentation will have a slightly more objective character, since, as you must have already received the Save the Date, and will receive the official invitation throughout this week. Next week, on November 16th, we will have, according to our bylaws, the Bank is listed as level one of corporate governance, our Investor Day for the year 2023, from 2:00 pm to 5:00 pm, Brasília time.

Where we will have the opportunity to talk a little more about our technologies, our architecture, network infrastructure and our cloud strategy, our credit strategy, market strategy, our addressable market, our growth, growth avenues, our financial numbers, our comparables, competitive advantages, advantages of the INSS auction, our entire digital strategy and much more.

It will take place at the headquarters of Citibank, Avenida Paulista, 1,111, Bela Vista, São Paulo. Participating with me are: Bruno Simão, our Vice President of Customers, Growth and Marketing; Felipe Boff, our Vice President of Products and Technology; and also Paulino Rodrigues, our Vice President of Finance and IR, to whom I pass the word, and will present to you in more detail the numbers that I passed in a macro way here in this first part.

Paulino, good morning.

Paulino Rodrigues:

Good morning, Gustavo. Thank you very much. Thank you also to everyone who is following us in this disclosure of results of the 3Q23 of Banco Mercantil. As Gustavo said, in fact, a quarter with an excellent performance.

We are still in the midst of the 3Q results disclosures, but I think we can safely say that Mercantil is delivering one of the best performances in the industry, which makes us very proud and that we will detail in the sequence.

Starting with our credit portfolio. As mentioned by Gustavo, as has been the case in the last quarters, we delivered a growth well above the market growth.

Our portfolio ending the 3Q at BRL 13.3 billion, a growth of 29% in the annual comparison, period in which the growth, even given disclosed on Monday by the Central Bank, of free resource individual credit, which we understand to be the best benchmark given the profile of the Bank, grew 9.1%. This had already occurred in previous quarters, if you consult the presentations.

So this has been the tone. I believe that in the last quarter the market grew 10, we grew 28. And so it has been in the last quarters, which demonstrates the Bank's ability to grow in a sustainable, profitable way, and we will talk next, with the default kept under control, thus allowing the Bank to achieve scale gains and increases in its returns, as we will demonstrate in the sequence.

The portfolio, we must highlight, continues with a majority participation of lines that have low risk and high pulverization, as are the cases of payroll loan for INSS beneficiaries and the anticipation of the FGTS anniversary withdrawal. These two portfolios added, as indicated in the graph, reached 77% of the total portfolio, having represented 71% a year before.

Of course, other portfolios are also important, as is the case of non-payroll personal credit, which due to the very challenging credit cycle that we have faced, the market as a whole over the last 18 to 24 months, is a portfolio that has walked, as it did in the last quarter, sideways, at 1.9 billion, representing 14% of the total portfolio.

We understand, however, and we are already observing an improvement in the default rates of this line in the market, that at some point in the next quarters, we can resume a growth of this line that is, on the one hand, a riskier line, on the other, it is a line that, if well operated, delivers a very important return for any institution, Mercantil included.

The other lines walking sideways. The business entity portfolio today represents 6% of our portfolio. This number was much higher last year, it was 9% a year ago. And in fact, it is not the focus of the Bank's growth, which, as mentioned before, is the massified individuals credit, especially portfolios of more pulverized risk.

Talking a little about the origination. In this 3Q23 we had a very welcome growth in our origination, resuming a level similar to that of 1Q23, which had been a record. So we surpassed the mark of BRL 2.6 billion in origination, with emphasis on the increase in the origination of INSS payroll loan, which returned to approach 1.5 billion in origination.

And the reasons for this are, first of all, a recovery of the INSS payroll loan market itself, which grew in the quarterly comparison, aggregate market data, 33.4%, reaching an origination in this 3Q23 of almost BRL 20 billion, BRL 19,921 billion to be precise.

The Bank has been gaining market share over time, having surpassed the 7% mark in this 3Q23. And this highlighting still that, given the historical moment of a very tight margin in the INSS payroll loan, the Bank is not operating today the correspondent banking channel with this line. Therefore, 100% of the origination of Mercantil in the INSS payroll loan has been done through its own network.

However, we know that the correspondent market, the origination of the correspondents, historically represents approximately half of the origination. Therefore, the Bank is obtaining 7% market share, operating fundamentally half of the market as a whole.

This participation has been growing, helps us to deliver the above-market growths that were presented previously, and we hope that it continues like this over the next quarters.

Talking a little about the other lines. We have the anticipation of the FGTS anniversary withdrawal with a small reduction in the quarter to BRL 538 million. It has been running at this level of 500, 600 million since the 1Q of this year, contributing to an increase in the participation of this line in our portfolio.

A point that I ended up not mentioning, but it is worth going back, is that our quarterly growth in payroll loan origination was 85% when we compare the 3Q to the 2Q, while the market growth was 33%. Again, therefore, Mercantil demonstrating its ability to grow above the market.

When we look at the free resource individuals credit as a whole, as mentioned earlier, in the annual comparison it is a market that grew just over 7%. And we are delivering here again, then. Here talking about origination, before we talked about the total portfolio.

But talking about origination, the origination in the annual comparison grew 7.3% and we grew 25%. So it is one more metric that reinforces the fact that Mercantil had competence and is having competence, from quarter to quarter, to grow in a sustainable way. And by sustainable we talk a lot about default, which is what we will talk about on the next screen.

So all this growth, as in previous quarters, happening with a very controlled default, one of the best in the segment, if not the best, of massified individuals. We had a growth in the margin of 2.8 to 3% of default in the quarterly comparison, however, still a reduction in the annual comparison of 3.2 to 3%.

In previous results presentations, we mentioned that 2.8 is an exceptional level and that further improvements in this number would be unlikely. And the fluctuation observed in the last quarter still leaves us in a position of excellence in the sector.

As the graph on the left shows, when we compare the darker line, it is the total default of the National Financial System of free resources, individuals and business entity. It is the darker line. This presents, after several quarters, a first stabilization, which is a hopeful sign that we may have a more favorable credit cycle ahead of us.

And individual, which is the lighter line, at the top, the gray line, presenting a first quarterly reduction after, here are end-of-quarter numbers, of the last month of each of the quarters, presenting a reduction of 30 bps, from 6.3 to 6%. What we hope will continue to occur in the next quarters, which makes the business environment of the credit market more favorable.

And the Bank, throughout this cycle, performing much better than the market, with a default basically half, if we compare with the individual credit in the National Financial System, and with free resources that, as mentioned earlier, we understand as being the best benchmark for Mercantil's performance.

The graph on the right, we have a leading default indicator, which is the Over 15 - 90 default, returning to the level of 1.7% observed in the 1Q of this year. Again here a reduction of 20 bps in relation to the increase in the margin that we had observed in the 2Q of this year. In any case, a very representative reduction when we look at the annual comparison. A reduction of 1.1% in relation to the 2.8% observed in the same quarter of 2022.

Still talking a little about the default, looking at other metrics, we have the variation of our NPL Provision stable in the annual comparison, with BRL 471 million. This represents 13.5% of the portfolio. A fluctuation in the margin of 10 bps in relation to the previous quarter, but a significant improvement of 1% in relation to the 4.5 observed in the 3Q22. This is the graph on our left.

On the right side we have the portfolio that accounts for interest, the AA - C portfolio, which had a small reduction of 10 bps, going from 94.6 to 94.5%. Again here, in the annual comparison, a significant improvement of 1.3%, going from 93.2 to 94.5%. So, I believe it is quite evident that the default indicators attest to a quality portfolio, despite the very significant growth that we have had, the competence and the skill to deliver quarter after quarter.

Now talking a little about the service revenues, here we have also had the ability to deliver impressive results. In this 3Q23, as indicated by the graph on the left, at the top, reaching BRL 152 million. A growth of 38% in relation to the 111 observed in the same quarter of the previous year, and a growth of 9% in relation to the observed in the immediately previous quarter, when we had BRL 140 million.

The main lines of business here remain the same. Tariffs represented 42% in this 3Q, which is the lowest number in the series observed here. Which is very positive, because it means that Mercantil is having the ability to grow the service revenue in products that the customer values more.

As is the case of insurance and commissions, which obtained a growth in this quarter, in the quarterly comparison, of 27%, reaching BRL 65 million, after another growth that had been observed in the previous quarter of 16%.

So, the repositioning made last year in our portfolio of insurance and assistance really begins to deliver more consistent results, which is what we can observe in the 2Q and 3Q. Which is very important in the sense of diversifying the Bank's revenue lines, adding strength to the very strong result that we saw in credit.

Illustrating this, we have the customers with assistance, which can be observed in the graph on the right, reaching 239 thousand customers in this 3Q23. This more than tripling the number in relation to the 78 thousand customers who had this active product in the 3Q of last year.

We have had the ability to put between 40 and 50 thousand new active customers with this product at the end of each quarter. So, this has been very important, as I said, in the sense of diversification of the Bank's results.

Our Marketplace operation once again presented an impressive result, reaching BRL 32 million, which means quadrupling the result obtained in the same quarter of the previous year, when it was slightly higher than 8 million.

All this added means that today the Bank has, through its service revenue, the ability to pay its payroll. Which is not a traditional market indicator, but it is a goal that we had set for the Bank and that we are achieving, which makes us very satisfied.

Now talking a little about our card operation. Here we have a more moderate growth. A product also implies risk. This has led us to have a growth not as expressive as that observed in credit, although it is also a consistent growth over time.

In terms of active cards in use, we had a growth of 21% in the annual comparison, reaching 1.7 million cards. And in the total volume processed, observable in the graph on the right, a growth of 16%, reaching almost BRL 1.4 billion in this 3Q23.

Now, talking a little about the other side of the balance sheet, the funding structure. We usually comment that Banco Mercantil, in comparison with its peers, has a competitive differential in its funding structure, in that today 74% of the Bank's funding is obtained through its own channels, be they our base of INSS beneficiaries that represents 29%, be they other retail customers individuals, business entity that represent 45%.

This grants the Bank the ability to have a significantly lower funding cost than its peers. A cost that reached 94.7% of the CDI in the 3Q23, a growth in the margin, but that still gives Mercantil a competitive advantage in terms of funding cost.

In the sense of diversification of sources, the Bank has been working on this diversification involving partner investment platforms, which today represent 11% of the Bank's total funding, institutional operations that represent 12%, and other structured operations that represent 3%.

It is worth noting that the diversification strategy is underway and will continue over the next quarters, so that the Bank has sources available to finance its growth over time, regardless of the economic scenario faced.

Talking a little about the cash position, the Bank in this 3Q23 maintained a robust position, ending the quarter with BRL 3.1 billion in cash, which is a very significant number, considering that the Bank ended the quarter with just under 18 billion in assets and an equity of 1.5 billion. So we have roughly two equity in cash, which is a cash position, again, it is worth reinforcing, quite robust for a Bank with the profile of Mercantil.

Our liquidity coverage ratio, which is one of the metrics followed by the monetary authority, ended the quarter at 1.8x, in line with what has been the tone of the last quarters. It had been 1.9 in the 2Q and 1.7 in the 1Q of the year. So, this indicates the Bank's strategy to be very conservative in its cash position, in order to be able to support the growth that it has been delivering. And this is something that is one of our pillars. It should not suffer any change over the next quarters.

Talking a little about our capital position, as referred to in the opening by Gustavo, we are and we will talk a little more about the Bank's return and margin levels in the sequence, but it has already been quite dimensioned here. So very impressive return levels, once again, in this 3Q23.

All this with the Bank extremely well capitalized, with a Basel index increasing 20 bps to 16.4%, well above 10.5, which are the minimum regulatory, with the equity reaching almost 1.5 billion due to the capitalization of results. So, all this leading us to continuous improvements.

We have now removed from the presentation, but we had a graph available on our IR website that shows the continuous rating increases that the Bank has been receiving over the last periods. In this 3Q23, we had a change in the outlooks of both S&P and Fitch to positive.

We also had in August, and it is worth highlighting, an upgrade from Riskbank that also follows Mercantil, raising the Bank's risk rating to BRMP 2, which means low risk for medium term. Which signals the observation by the risk agencies that the Bank has been growing, and has become increasingly solid over time, reflecting this in the credit ratings of Mercantil.

Now talking a little about the margins. As mentioned by Gustavo, it is the 4th consecutive quarter that the Bank delivers a record quarterly result, this time of BRL 102.2 million, a growth of 155% in the annual comparison. Therefore, more than doubling the profit of 40.1 million obtained in the 3Q of last year.

On the right side, we observe the margins where we had a reduction in our net financial margin, and we have some reasons for this, among them, the increase in the margin of the funding cost referred to.

We have here and this is the main reason, a mix effect in this quarter, where we had a higher participation of portfolios that have a lower margin, such as the case of INSS payroll loan, which also suffered, as is known to the market, some reductions in the ceiling, forcing the institutions participating in this market to adjust their strategy.

But the objective fact is that the INSS payroll loan operates today the market as a whole, and Mercantil is no different, with one of the lowest spreads in the historical series, if not the lowest. As we had and saw this when we talked about the origination, a significant growth of this portfolio here at Banco Mercantil, this generates an unfavorable mix effect when compared to other lines that have better margins.

As is the case of the FGTS anniversary withdrawal and the own non-payroll personal credit, which have maintained a much more modest growth. This mix effect caused us to have this reduction from 22.9 to 21.3 in the NIM. But still, the NIM operating at a level of excellence and

within the goal that we have for the Bank in the long term, which is to operate with a NIM above 20%.

When we look at the composition of the NII plus the service revenue, we had a growth in the margin with services more than compensating for the reduction of BRL 9 million observed in the NII. So services grew 12 million. We reduced 9 in the NII, but in the whole we grew BRL 3 million in our NII. So, therefore, a NIM of 21.3%.

Now talking about the Bank's return levels. On the right side, and here I wanted to make a highlight that is quite significant. It is the first time that the Bank surpasses the barrier of the ROAA of 2%, reaching 2.1%. This denotes the ability of Mercantil to achieve scale gains.

If we see: we just talked about a small reduction in the NIM in this 3Q23. We saw earlier that the default had a small variation in the margin of 0.2%. And with all this, the Bank still obtained an increase in its return on assets, the ROAA. This is due to the Bank's ability to achieve scale gains as it grows.

So, there is a very great discipline in terms of efficiency and cost containment. If we take the nine months of 2023 compared to the nine months of 2022, we had a growth in administrative expenses. And those who observe more leisurely our financial statements published today, will be able to verify this, a growth of 3%. Therefore a growth below inflation.

On the personnel side, we had a higher growth, of 16.8% in this same base, but this is mainly due to provisions for variable remuneration, in view of the exceptional results observed here. So, it makes sense, as we observe such impressive results, we distribute a part of it with our team of collaborators, who are a fundamental part in the generation of this result.

But, anyway, when we look at the efficiency indexes and other productivity metrics of the Bank, the Bank has been capturing scale gains, which then allows us to obtain a return on assets exceeding, once again it is important to reinforce, the mark of 2%.

And this, even having had a reduction in leverage this quarter, which was reduced from 12.5x to 11.9, in line with the Bank's history in previous quarters, this allows us to take the ROAE last twelve months, of the last 12 months, of 25%, as referred to by Gustavo earlier. Another historical mark of the Bank.

And if we look at the quarterly annualized ROAE, reaching 28.8%. It had been 29.8 in the previous quarter. But let's agree that both are, in the Brazilian or even global banking market, metrics of excellence.

So, with that, I close the participation of results, at the time I invite everyone to our Investor Day that will take place, and everyone will be invited next week, on the 16th. Where then we will dedicate more time to deepen different aspects of Banco Mercantil.

And with that, I return the floor to Marina, who will facilitate the process of questions and answers. Marina, please.

Participant 1 (via webcast):

You had commented that the Bank would come to the market with a debt operation. What happened? Did you give up or postpone?

Paulino Rodrigues:

No, neither one nor the other. The question is really good, we even referred to it in previous presentations and today was no different, the Bank's strategy of diversification of sources of resources. And we have an operation that is coming out of the oven, it will be timely disclosed to the market.

But I can anticipate that it is a very relevant operation in terms of values and also of positioning of the Bank in the corporate debt market. And this operation is coming to the market in the next few days. That's what I can anticipate. It ended up suffering a delay for operational reasons, but it is coming to the market in the next few days. So, wait. The market will naturally be communicated of the closing of this operation.

Participant 2 (via webcast):

We have observed the successive reductions in the ceiling of the INSS payroll loan rate. And, apparently, this is affecting Mercantil's NIM. Is that right? How far do you think this process will go, considering that the Selic should continue to fall until it reaches the 9% range?

Participant 3 (via webcast):

Congratulations on the results. Could you talk about the NIM trend for the next quarters? Thank you.

Gustavo Araújo:

First, regarding the Selic drop. For retail banks in general, which take post-fixed resources and lend pre-fixed resources, the Selic drop inherently helps the margins of these institutions. Of course, excluding the effects of the ALM strategies, which is matching of assets and liabilities and hedge account, in the net, the drop in Selic, the basic interest rate, tends to improve the margins and spreads. Therefore, the NIM.

So, we are living the conjunctural moment of falling interest rates. As I commented, we believe that this drop will be smaller than what we expected when we last disclosed results.

But still, we will probably live some subsequent cuts in the basic rate with this monetary easing, since inflation is at slightly more stable levels, within the bands of the target, and still with some discussions regarding the fiscal deficit in the Brazilian public sphere.

Regarding the payroll loan product, the technical structure of this product does not allow to consider the Selic or the CDI Over. It is a product that goes up to 84 months. It is a product of duration of 36 months, depending on the duration metric used.

And that the treasury of the banks in general, doing their hedge work, in theory, in the best practices, should use for their pricing and risk analysis the curve of the DI future of two or three years, according to the duration, that is, the DIF27 or F28, with their respective vertices of greater liquidity, which today are slightly below, marginally below 11%.

So, even though the Selic falls in the short term, this helps the Bank's NIM in a certain way, on the other hand, when we have an equation of payroll loan ceiling falling and a structural Selic on the curve stable, what we have is an expected NIM drop of the product. What makes some credit clusters, which are customers with a higher actuarial propensity for death or a higher propensity for cessation of benefit, depending on the type of benefit, have these lines ceased.

In other words, it is not worth lending to some customer clusters. So it is much more a question of credit and origination. And this has an impact not only on Mercantil, which has several

advantages over the market, cheaper funding cost, access to payroll, spare products, cross sell, principalship, but mainly on the competitors.

The industry lives the lowest spread perhaps, in history in relation to the payroll loan. And we are observing. But as we showed in the last quarters, both in the pandemic, where we had a very large increase in deaths of the public 50+, with an impact on the balance sheet, and in this cycle of monetary tightening, the Bank showed a very important execution to get out of these main challenges.

So, we believe that structurally this rate should not fall, after all, this would take away the credit limit of some customers who have access to this line that, by the way, is the third cheapest in Brazil, individual, after furniture and FGTS anniversary withdrawal.

But we will continue to monitor these successive drops in ceiling, and the effects that this may bring on our NIM. But as Paulino said, even though the NIM has fallen and the default has risen in the margin, our ROAA has risen, that is, the Bank still has a lot of room to continue growing in profitable lines.

Even though we do not have this appetite for slightly riskier customers, as I said, we still manage to work with a part of the customers with the margin preserved, with the NIM above 20%.

And more, with the scale gain, we managed to reach the ROAA above two, which leveraging 11.9x, 11.5, 12, which is our average, we still managed to deliver the growth above the market, and the ROAE in the range of 20, 25, between 25 and 30, depending on the disclosure.

So, all this to say that the Bank adapts well to market changes. The changes happen and are there for execution and adaptation. But we still believe that we will grow a lot, which even corroborates Paulino's speeches regarding the funding that we will do to support the Bank's new growth, and deliver growth and result, as we have already presented here, quarter after quarter.

Participant 4 (via webcast):

We saw pressure on the financial margin and also an increase in the funding cost as a percentage of the CDI. Given the deposit base, are you seeing more competition in the rates? Or what explains this higher cost?

Paulino Rodrigues:

In fact, this variation in the funding cost was presented. It is a variation that we understand that was still in the margin in this quarter. And the graph that we presented itself shows that there is a fluctuation that is natural. However, it is important, a question was even asked about an operation, and we talked.

I think it's the third time I talk about diversification of funding sources. When we increase the presence of wholesale, capital markets, bilateral operations, wholesale operations, in relation to retail operations, naturally these operations have a higher cost.

Answering the question, as we will have an operation in this 3Q entering, in a significant volume and at a cost above our average cost, as it is the cost of capital market, this will naturally cause a variation in the margin, in the funding cost. So this we can anticipate, joining the dots of everything that was said here.

Retail funding does not take quantum leaps, as I say. It grows as it has grown organically. In this 3Q we saw our sight deposit base, which helps a lot to keep these costs low, growing less, actually staying stable. Whereas our term deposits were responsible for basically all the growth of 600 million that we had on the funding side.

So this mix effect was what caused the increase in the 3Q. And that's it. Over time what we will see, as we have seen historically, is a growth of the base of the Bank's own channels, growing organically. However, as we diversify the sources, we will see an increase in the cost in the margin, but nothing that prevents us from maintaining our net interest margin, the net financial margin, at the levels.

That, given the interest rates of the current scenario, today we understand that it has to run as it is running and we understand that the macro scenario itself, as Gustavo said, favors this, in this range of 20%, plus something. Which is what allows us to deliver at the end of the day, a ROAE at the level that we are delivering, above 20%, keeping the Bank's leverage constant.

So, this is something that we have to know how to manage. We understand that we have had a good competence in this process. But we always organize this in a way, coordinate this in a way, that the Bank as a whole continues to deliver a NIM at levels above 20%.

Participant 5 (via webcast):

An exponential growth of the WhatsApp channel was presented. In this sense, what is the expected time of this channel to become the largest channel of Banco Mercantil in financial results?

Gustavo Araújo:

This channel was practically nonexistent, if we look at the spectrum of 12, 18 months. It is the channel that grew 30% per month, still has not stabilized its growth rates, that is, its growth derivative. It remains quite accelerated. I think we have several products still to plug into the channel. We have relevant growths with the entry of new products and journeys.

The Bank has learned more and more to acquire new customers through market performance and funnel conversion. It is a channel that converts today on average 14%, when the average of e-commerce in open sea on the internet is 1.5 in Brazil, that is, the conversion that the Bank has sought is 10x higher.

So we believe that soon it will be the largest channel in business of the Bank, of origination. We had an annualized origination above 1 billion, if we take this quarter. What can be anticipated is that, at the request of our customer, all the tests that we do, of hypothesis, we increasingly prove the thesis that it is a very dear, very easy channel, that we have managed to operate with security, which is quite sought after by the public.

And more than anything, it is quite exponential, that is, the Bank can serve customers in their regions where it has physical stores, making this "double" physical and digital, but also can serve very well through the channel any region of Brazil, which has there responded for this exponential growth of the customer base and business.

So, I think we will see this number grow more and more. New strategies being coupled in the channel, of security, usability, new products, NPS. A channel with NPS above even the Bank, which is 75. This channel is already above 85 NPS. Customers recommend, use the channel itself to recommend other customers in the member get member.

That is, I think the prognoses are quite auspicious in relation to what this channel will represent more. Remembering that the Bank's strategy is to serve this customer 50+ in their best convenience. So, we have physical store, we have partnership with third parties.

We have, anyway, the application that is one of the lightest in the market, faster, simpler, that already accounts for 36%, has WhatsApp. Anyway, in the way that the customer wants to relate, we will be here ready to do business.

Participant 6 (via webcast):

Is 2023 reasonably already given? What is the outlook for 2024?

Gustavo Araújo:

2023, I think we have already surpassed by 30% the result of 2022. We closed last year with 200 million and we are already with 270. So, it is an important growth metric. We managed to stabilize at a level of return above 100 million for two consecutive semesters. We have been for more than four quarters giving record results.

So, I think despite all the challenge and all the uncertainty embedded, not only in 2023, but also in 2022, in 2021, we have managed to deliver good results. A very focused execution on our great purpose of growth, of return, of our customers as well.

Here we usually joke that banks are balance sheet structure companies. So we build a long-term asset, we have a stable funding, we make the appropriate hedge matches, GLM. That is, we do an adequate expense management. The Bank builds this framework of result and stacking these new growths, these scale gains, as Paulino put it.

So, I think 2023 is a year that is well underway, let's call it that. But 2024 embeds several uncertainties that we have to observe. There are very important discussions in Congress regarding, for example, the end of the JCP, which would bring us a significant increase in the total tax rate on the last line, the effective rate.

We still have discussions regarding the ceiling of payroll loans. Discussions regarding possible structural changes in the FGTS product. But I think we are on an interesting path, with interesting competitive advantages.

That is, regardless of the uncertainties that the market still brings, some uncertainties regarding the stabilization of the Brazilian debt, which brings uncertainty regarding the future of interest rates, which for us is so important, as I mentioned, we believe that there is, for example, in the digital lever of WhatsApp, of the application, a lot of market to grow, in the public 50+ a lot of customer to bring.

And with a discipline of an analysis always focused, understand the best win-win return for the customer and for the Bank, we believe that we will continue to be able to grow in more defensive lines, such as the sovereign final risk portfolio, spiced up by a personal credit portfolio. That is, continue a little more this work that delivers the growth above the market, with very interesting returns as well.

Marina Magalhães:

Guys, let's move on to the closing of our event, other questions will be answered directly by the IR area. Thank you, Gustavo and Paulino, once again for the presentation. For any additional questions, the Investor Relations Department is available through the contacts that are displayed on the screen.

I would like to thank the presence and participation in our event and wish everyone a great day.

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