Marina Magalhães:

Good morning, everyone, and welcome to Banco Mercantil's 2Q24 earnings presentation. My name is Marina, I'm responsible for the Investor Relations area, and joining us today to lead the presentation are Gustavo Araújo, the Company's CEO, and Paulino Rodrigues, the CFO.

At the end of the presentation, we will have a Q&A session, so we encourage you to submit your questions through the Q&A tab at the bottom of your screen. The presentation will be recorded and made available on our website after its conclusion, along with the transcript. The material presented here is already available for download.

So, to start our presentation, I invite Gustavo Araújo.

Gustavo Araújo:

Good morning, Marina, good morning, everyone, thank you for your time and attention. We are very excited to present our 2Q24 results. Once again, we are reporting a record result for Banco Mercantil, this time of BRL 181 million for the period. This result is not surprising, as it follows a strong growth trend that has been in place for quite some time; this is already the seventh consecutive quarter of record net income.

This result is 100% recurring and is the outcome and consequence of a lot of hard work, investment in technology, people, and disciplined strategic execution with a very clear focus: to be the best bank and the best ecosystem for the fastest-growing and highest-consuming demographic in the country, the over-50 demographic, which we believe is underserved by the competition.

We grew over 80% compared to the same period, the same quarter of the previous year, from BRL 100 million to BRL 181 million, and profitability at the time, on an annualized quarterly basis, was already above 29.8%. This means that current profitability is 41.6% on an annualized quarterly basis, and over the last 12 months, 37.6%, one of the best returns in the industry.

And now, as we move forward, throughout the day, we will try to understand each of the numbers that justify these results, from the quality of the portfolio, the ways the Bank finances itself, and how it serves its clients, touching on all our competitive advantages in products, channels, and customer experience.

I now present the highlights of the quarter, starting, as it should, with our customer base—our impressive base of over 8.5 million customers, a growth of over 18% during the period. And not just customers, but cross-sold, engaged customers who use the Bank as their main bank. Proof of this is that almost 50% of this base, to be more precise, 49%, have at least one credit operation with us, which brings us to this record-high credit portfolio of BRL 15.5 billion, with a growth of 22% during the period, meaning that the Bank grew 2.3 times the market during the observation period.

We have already been growing 2.5-3x the market in recent quarters and years, regardless of the situation. If we look at the period we are living in, the cap on payroll loans, the FGTS cap, and the anticipation of the withdrawal-anniversary have been gradually decreasing, and the monetary easing cycle is now observing a pause.

When we look, for example, at the future DI, with a portfolio duration of two or three years, which we use in our credit structures and hedges in pricing each operation, this DI is quite high, meaning that each operation today is at a historic low of spread in our main products. And yet, we have managed to grow very strongly, well above the market average when compared to the historical series of the Central Bank, free resources, individuals.

Our main product, the flagship, payroll loans, to give you an idea, we grew 32% while the market grew only 12%.

Well, if we cannot control the payroll loan or FGTS cap, nor the future DI, the only option the Bank has to maintain its margins is to control risk, which means the Bank is increasing the collateralization percentage of its portfolio, reaching 81%. In other words, 81% of our portfolio has sovereign risk as the final counterparty. And, of course, within these niches, for example, in payroll loans, the Bank has been granting credit for some time, when the cap cuts began, to the public and to niches and segments with lower actuarial risk. That is, those that present a lower probability of credit loss.

Proof of this is the 2% delinquency rate over 90 days, with a decrease of 0.79% during the period, one of the best indicators in the industry and better than our normal historical average, which is between 2.5% and 3%. In other words, precisely because of this period of tight margins, we have been selective in granting credit, which has worked quite well, as justified by our net interest margin (NIM), which stands at 21.7%, despite showing a marginal decline of 1.2 percentage points compared to the same period last year.

Despite the Bank's main revenue driver being credit, as we have already discussed in this first section, it is also very important for the Bank's revenue composition to have service revenue. This works very well to engage customers, increase the Net Promoter Score, reduce churn, and improve retention, but it is also very relevant and healthy revenue that goes straight to the Bank's bottom line, without allocating credit risk, unaffected by the vagaries of market credit conditions.

We have experienced, in recent years, post-pandemic, the highest levels of household debt. So, this is very healthy revenue, which has also grown proportionately. As the customer base grows, the portfolio grows, and service revenue grows by 24%, reaching BRL 175 million this quarter alone.

All this, as already mentioned, leads to a profit of BRL 181 million for the period, a growth of 80% compared to the same period last year, and an annualized quarterly ROAE of over 40% and last 12 months, which is the most used metric in the industry, of 37.6%, an increase of 16.4 percentage points compared to the same period last year.

All this strategy is supported by a well-capitalized bank, with a broad Basel III Index of 17.5%, a growth of 130 bps compared to the same period last year, and with a Tier 1 Basel of 13.7%. In other words, in several metrics, we can demonstrate the quality of the recurring results that the Bank has been delivering.

Well, if this strategy has worked very well in terms of products and services and for this growing and underserved demographic that needs a partner bank, this digital strategy combined with physical presence, which has already proven to be very successful, especially in the Southeast, now Banco Mercantil is taking steps to expand what is replicable with some strategically positioned points geographically throughout the North and Northeast.

We intend to bring this channel and this advantage, this value proposition, which is a physical point, human service, a point equipped with Wi-Fi, where the customer can enter the branch, ask questions in person, download the Bank’s app through our networks, and then make this transition to digital.

At Mercantil, we adapt technology to the customer and not the other way around. And we know that for the 50+ demographic, some age and income segments still prefer physical service. And with this in mind and with this proposal, Banco Mercantil, in this last quarter, expanded geographically into more than ten new states so that we can bring all this value proposition, not only of products, services, and credit, but also of channels, to embrace this demographic, which is the fastest-growing in the country.

All this is only possible because we have one of the most digital strategies for the target audience in the country. 66% of all our credit origination was carried out end-to-end in some of our digital channels. Over 1.1 million contracts originated and signed, either in the Bank's app, fully designed for the target audience, or on WhatsApp, a tool that brings all the convenience of self-service for the customer, but with all the comfort of that conversational feel that the customer seeks to answer some questions before completing the entire digital process with all the security of Banco Mercantil.

Operations originated in the app already account for 29% of all the Bank's operations, while WhatsApp, a major innovation case for the Bank, already accounts for 36% of all end-to-end origination in the most secure way we can benchmark in the market to bring all this convenience to these customer clusters.

So, we specialize in products, technology, and also the best channels, whether physical, close to the main regions of the country and municipalities where we understand that it makes demographic sense to place this convenience, but mainly also, having this operation as one of the most digital in the country, meaning that the marginal distribution cost of two-thirds of our credit tends to zero, i.e., without commissions and without human intervention in an industry where any percentage point here in distribution cost, given the historic minimum margins of payroll products, makes all the difference when we talk about profitability, which justifies the Bank's entire profitability, the ROAA above 3, the ROAE leveraged at 11x above 35% already over a relevant period here of time.

Our customer base, as already mentioned, is highly cross-sold, 49% of our customers have at least one credit operation, so at Mercantil, we want to grow the customer base, but more than that, grow engaged customers, grow businesses. Customers who see the Bank as their business partner for a credit operation or some product from our ecosystem so that they can have financially or ecosystem-appropriate solutions for their daily lives.

The new cohorts of account openings already show 62% adoption of the app, basically doubling in the last two years, meaning that as new generations retire, the more digital the Bank can be, the more it can bring this value proposition that is cheaper, more efficient, and more convenient for the entire demographic.

All of this—Basel, cash, ROAA, ROAE, margin, NIM, controlled delinquency, quality, growth, and results in an 80-year-old bank—was once again recognized by one of the most reputable rating agencies in the country, S&P Global, with a double rating upgrade this quarter, moving the Bank from an A rating to a double A-, reaching one of the highest categories, one of the highest risk categories, which ultimately reflects in an increasingly lower marginal funding cost.

Banco Mercantil, which already has a comparatively much cheaper funding cost, due to its entire strategy, than its peers, with this upgrade certainly achieves a reduction in this cost due to an increase in the Bank's perceived security, which can, of course, be passed on as a pricing matter to its entire customer base, allowing us to expand even faster, maintaining the margins already set in this well-built strategy of Banco Mercantil over the past few years.

And to understand each of these numbers in detail—credit, origination, portfolio quality, our funding, the cost of funding, the composition of service revenue, our capitalization, and profitability—I now invite our CFO, Paulino Rodrigues, to the stage. Good morning.

Paulino Rodrigues: Thank you very much, Gustavo, and thank you also to everyone following this 2Q24 earnings release. Let's now dive into a more detailed analysis of Banco Mercantil's results.

Starting with our credit portfolio, the main driver of the Bank's results, which closed June at a record level of BRL 15.5 billion, representing an annual growth of 22% during a period when the free resources market for individuals in the country grew by 9.5%. This means a growth rate of 2.3x the market, a trend that has been consistently recurring in Banco Mercantil's history, quarter after quarter, with the average annual growth over the past three years reaching 27%.

The main highlight of this growth is our INSS payroll loan portfolio, which is also the Bank's primary portfolio, closing the quarter at BRL 9.3 billion, a 32% increase year-over-year, during a period when the market grew by 11.9%.

This growth means that the Bank is continuously gaining market share, which we will discuss further when we talk more about credit origination. Regarding the other lines, growth was not as significant, with the Personal Loan FGTS growing by 26%, closing the quarter at BRL 3.2 billion, despite losing some traction as this market begins to lose some depth.

Our personal loan portfolio, despite a high origination volume—which, as I mentioned, we will observe on the next slide—closed the quarter at BRL 2 billion, largely due to something Gustavo mentioned earlier: the anticipation of the 13th salary payment for INSS retirees and pensioners, which allowed them to amortize part of the portfolio. As a result, even though origination, as we will see, was quite significant, the portfolio balance was not as affected due to this dynamic.

This is naturally very good for our clients, who reduced their debt, but it also means that a portfolio that is quite important to the Bank's credit portfolio did not show more pronounced growth.

Speaking a bit more about credit origination, we had a very strong quarter in INSS payroll loan origination, surpassing the BRL 2.2 billion mark, slightly below the previous quarter, when we reached BRL 2.417 billion, but still showing a significant growth of 180% compared to the same quarter last year. This allowed Banco Mercantil to capture a 9% share of all INSS payroll loan origination in the market during 2Q24, which is quite significant, especially considering that about 75% of this market is dominated by the five largest banks in Brazil.

For a mid-sized bank like Mercantil to occupy an origination share of nearly 10% is very representative, and this is not an isolated figure. This number has been growing quarter after quarter for several years now.

If you go back to 2021, for example, you would see that the Bank was originating 2% to 3% of the INSS payroll loans in the market at that time. This number has been growing as the strategies mentioned by Gustavo have begun to take more effect, and it has been steadily increasing, now reaching almost 10%, closing 2Q24 at 9%.

It's also important to note that 100% of Banco Mercantil's INSS payroll loan origination is done through its own channels, whether physical or digital, which, as already presented, occupy an increasingly larger share of the Bank's credit origination.

When we look at the other lines, as I mentioned earlier, the Personal Loan FGTS ran at around BRL 250 million, slightly below the previous quarter but no longer showing the same traction observed in 2Q last year, when it nearly reached BRL 600 million.

The unsecured personal loan portfolio, or clean credit, saw origination of BRL 547 million, which is a very significant origination figure, the best we have achieved in the last year. However, as we discussed regarding the composition and balance of the portfolio, it did not have a significant impact on the portfolio balance due to the amortization dynamics triggered by the anticipation of the 13th salary for retirees and pensioners.

So, these are the main highlights, showcasing Banco Mercantil's strong credit origination. This growth has been happening in a very sustainable manner. We have been through a very complex credit cycle in Brazil, and we are still experiencing it. If you look at the CNC data, for example, you'll see that we are very close to the historical peak of household debt, and this dynamic started in 2021, still during the pandemic, where this curve grew and remained high in 2022, 2023, and continues in 2024.

Despite all this, we observe the over 90-day delinquency rate, the main market indicator, shown on your left, where the light blue line represents Mercantil, reaching the lowest level of recent quarters—I would say a level of excellence—given the composition of the Bank's credit portfolio, reaching 2%, which is significantly lower than the market figures, whether it's the overall market, represented by the white line, running at 4.6% this last quarter, a small increase of 10 bps after three consecutive quarters of reduction, or even when we observe the darker line, the individual market, reaching 5.5%, also a deterioration of 10 bps this last quarter after three quarters of reduction.

So, this shows that Mercantil has not only been able to grow its credit portfolio at a rate significantly higher than the market but also to do so in a sustainable manner in terms of credit risk.

On the right side of your screen, you can observe the delinquency rate for over 15-90 days, which is a leading indicator for over 90 days, also decreasing at a similar pace to the over 90 days rate. This indicates that in the coming quarters, we should see similar performance in our credit portfolio concerning delinquency.

When we look at other metrics related to the quality of the credit portfolio, such as, for example, on the left side, the volume of NPL Provisions and the percentage that these provisions represent of the portfolio, we also see very favorable indicators. I would like to highlight an additional piece of information not shown here, which is our coverage ratio. Despite the reduction in the NPL Provision percentage of the portfolio observed this last quarter, reaching 2.7% as shown on the left side graph, the Bank's coverage ratio was the best of the last 12 months in this 2Q24, reaching 136% of the over 90 days portfolio.

So, although the percentage of total NPL provisions relative to the portfolio has decreased, the coverage ratio has expanded, showing that the Bank is in a very robust provisioning position given its portfolio profile. This is also illustrated in the right-side graph, where the double AA-C portfolio continued to grow for another quarter, reaching 96.1%, a very healthy indicator of the risk profile of our portfolio.

Now, talking a bit about service revenue, the Bank has been increasing its service revenue quarter after quarter, something not commonly seen, especially when we talk about mid-sized banks. This is happening in a context of declining banking fees, driven both by competitive and regulatory aspects, which have been gradually decreasing quarter after quarter, as seen in the dark blue line at the top, closing this 2Q24 at 34.7% of total service revenue. However, service revenue has been growing in other areas where customers place greater value, such as insurance and assistance services, which now represent 54.7% of total service revenue.

Service revenue as a whole has represented approximately 15% of the sum of service revenue and NII, the net interest income, despite the robust growth of the NII that the Bank has been presenting quarter after quarter, which we will see more about later.

What I mean is that maintaining this 15% proportion in a context of very rapid NII growth is quite significant, and it has been achieved through consistent evolution in the composition of this portfolio, meeting the needs of our customers, particularly our predominant profile, the 50+ customers.

Remember that here we are talking about revenue that does not allocate capital and goes straight to the bottom line, helping to shape Banco Mercantil's profitability indicators, which we will see next.

Talking about one of our revenue lines, which is cards, as you can see in the graph on the left, we have been gradually growing our installed card base. The highlight I would make this quarter is for payroll credit cards, which already represent 21% of our active card base. Here, we always talk about active cards, reflecting the result of a commercial effort that has been carried out over the past few quarters.

Our total purchase value, observed in the right-side data, reached BRL 1.727 billion, a very significant growth of 25% during the period.

Now, looking a bit more at the other side of the balance sheet, how the Bank finances itself, its funding structure, one of the Bank's competitive differentials is precisely its ability to finance itself predominantly through its own channels without resorting to other sources, which we will see on the next slide.

But on this slide, regarding the main funding sources, the Bank's time deposits continue to be the primary source, gaining even more share this last quarter, reaching 79%, followed by structured operations and other sources such as financial bills or bilateral operations, LCAs, LCIs, savings, and even demand deposits, which are shown in the light blue part of the bar chart.

We had organic growth in the base here of 32% during the period, exceeding the growth of the credit portfolio. This also means, as we will discuss a bit later, that the Bank's liquidity position closed 2Q24 in a very robust position, preparing the Bank for continuity in terms of liquidity and also discussing capital, which will remain consistent in the coming quarters.

The second highlight I would like to make is that the Bank operates at 97.1% of the CDI, which is significantly below what we observe with mid-sized banks in general, contributing to the Bank presenting a significant net interest margin, or NIM, that we will discuss shortly, and which has enabled the return levels that the Bank has been presenting.

Speaking a bit about the funding sources, as you can see in the pie chart on the left, 69% of the Bank's funding comes from its own channels, whether they are retirees or INSS pensioners, who represented 27.7% in this last quarter, or other clients, individuals, and businesses, which we call retail, representing 41.5%.

This organic, in-house funding is the main reason why the Bank has a consistent funding source with permanent growth and a very competitive cost, as we just presented. However, naturally, we also seek to diversify funding sources and compose our funding sources, even though in the left-side graph, with investment platforms.

The bank is present on the main investment platforms in the country, which account for 10.6% of funding, institutional operations, another 10.6%, and structured operations, such as a securitization operation we carried out in November last year, and a CRA that we also brought to market in the first quarter of this year, which together account for 9.6% of the Bank's total funding.

Regarding the cash position, we present here one of the indicators monitored by the monetary authority, the Liquidity Coverage Ratio (LCR), or short-term liquidity, in a loose translation, reaching a very high level of 2.3 times the regulatory minimum required by the Central Bank. This means, in practice, that the Bank closed 2Q with a cash position of BRL 5 billion, which is a very significant number given the size of the Bank's balance sheet.

This indicates that the Bank is very well-prepared from a liquidity perspective to maintain the growth trajectory we have seen or even accelerate it without major disruptions. As you can see, historically, the Bank has maintained very high levels of liquidity.

Moving on to another important regulatory aspect, which is capitalization levels, the Bank closed this 2Q24 with a Basel III Index of 17.5%, which is quite high. Today, we are also making a payment of BRL 102 million in interest on equity (JCP), with a net amount of BRL 86.7 million, representing a payout of 26.4% of earnings for 1H24.

Despite this, we maintain a very high level of capitalization, which we believe is an important cushion given the Bank's growth rate and considering that we are in a period where equity markets are, so to speak, quite cautious.

The administration believes it is opportune to maintain robust capitalization levels to ensure we do not miss growth opportunities. All of this was recognized in another upgrade, already mentioned by Gustavo, by S&P, and we have a positive outlook from Fitch, which we believe will be reviewed shortly.

The Bank's dynamics over the past few years are illustrated on this slide, where the white line represents the sum of the Bank's revenues as a whole, NII plus service revenue and income from securities, i.e., revenue from liquidity resources, which have grown over time at a much higher rate than expenses, which is the light blue line in the middle, growing at a much lower rate, or even the cost of funding, which is the dark line at the bottom of the screen.

Remember that the average Selic rate in 2Q21 was 3.24%. In 2Q22, it had already risen to 12.38%, and then in 2Q23 to 13.65%. Naturally, this increase in the CDI, which by extension of the CDI, put pressure on the Bank's funding costs, as illustrated by the dark line at the bottom of the chart—remember that this chart is a quarterly observation chart, not a cumulative chart—so it illustrates quarterly results and seeks to demonstrate the increase in spread, so to speak, or the margin that the Bank can generate, given this dynamic of revenue growth much faster than expenses, opening this gap from BRL 104 million in 2Q21 to BRL 412 million in 2Q24.

This helps to illustrate how scale gains, along with the Cost of Risk, have helped the Bank to present the margins and margin growth it has been achieving, which we will discuss on the next slide.

As you can see, despite the net interest margin remaining quite stable over the past few quarters, at a level of 21-22%, and in this 2Q24 context, given this high level of cash, it is important to illustrate that the participation of cash in interest-earning assets, as they are called in English, reached the highest historical level for the Bank, at 21.1% in this composition.

A significant increase, as it was 17.5% in the previous quarter, which was already a high number, and if we go back a year, it was 14%. So, this naturally impacts the net interest margin since cash yields much less than credit. Despite this, we continue to sustain a NIM level above 21%, 21.7% in the last quarter, despite the high level of cash.

With services representing a 24% year-over-year growth and NII growing by 26%, very similar growth rates, as I mentioned when we talked about services earlier, with our NII surpassing the BRL 1 billion mark, reaching BRL 1.15 billion.

All of this naturally cascades into the Bank's return levels. So, looking at the graph on the right, our return on average assets surpassed the 3% mark for the first time, reaching 3.1% at the end of 2Q24, which, multiplied by the Bank's leverage level, which remained practically stable at 12x, leads us to a ROAE of 37.6% in the last 12 months metric, or LTM, in English.

So, this is a direct consequence of the scale gain I presented to you, in addition to other gains, such as the Cost of Risk, which we discussed earlier when we talked about delinquency, leading the Bank to present both ROAA and ROAE, possibly the best indicators in the market, if not the best, given that we are still in a period of earnings releases, but we are certainly in the top tier of Brazilian financial institutions.

With that, I hand the floor back to Marina so we can proceed with our Q&A session. Thank you very much. Marina, please.

Q&A Session

Marina Magalhães: Thank you, Paulino. Thank you, Gustavo. Everyone, we will now begin our Q&A session. I remind you that questions can still be submitted through the Q&A tab at the bottom of your screen. So, let's start with our first question:

"Could you elaborate a bit more on the expansion strategy for the North and Northeast?"

Gustavo Araújo: I think fundamentally the Bank has several channel strategies, let's put it that way, as already touched upon during this first part. So, we have a strategy heavily based on digital for acquiring customers through online platforms, with marketing, performance, and growth, where we can bring our value proposition, both in credit and products and services, and expand our customer and business base proportionally through the app, which today accounts for 29% of origination, and also through WhatsApp, which I think is a great success story across the entire Brazilian territory, without borders.

We segment this customer base to deliver the best channel value proposition. The customers who prefer this digital strategy, if we do an R^2 here with age, will be the new cohorts of retirees, those who still like a human touch to clear up some questions before formalizing, where we have WhatsApp, and then there are customers, depending primarily on income and age, who will prefer to go to a physical location.

So, we believe it is essential, depending on the demographics and GDP of the localities and the percentage of people over 50 years old, for the Bank to have a physical presence to complement this strategy that has already proven successful, this more omnichannel strategy, where we have the entire channel strategy established, which is in the Southeast. We are expanding something that has already proven successful and is replicable to the North and Northeast.

So, it's a formula that already works, a formula that is already successful. The Bank is already nationwide through the purely digital strategy, but we know that placing a sign, a heavy sign, a physical branch, brings security to some customers, brings that presence in that locality, and helps the Bank execute this entire strategy of acquiring and engaging new customers.

So, we believe we tested the model here in the Southeast, and just as a reference, with only 300 branches, today we are the fifth-largest bank paying benefits in the country, and we believe that expanding this strategy to other locations has everything for us to replicate something that is already proving valuable, delivering returns above the cost of capital with very interesting spreads.

Considering the Bank's current ROAE, we would like to expand this entire strategy to the entire Brazilian territory, and that is what we started doing this quarter with this expansion into ten new states. We are very excited about the future and optimistic about everything we can achieve with this new expansion of this strategy.

Marina Magalhães: Thank you, Gustavo. Well, our next question is about the INSS auction:

"What is the Bank's expectation for the upcoming INSS auction?"

Gustavo Araújo: We are currently in a public consultation period. So, a public consultation for the tender has been released. It should likely conclude in the coming days or weeks. We are counting 45 days, and then we move on to the actual bidding process, where several players will bid for each of the 26 regions of the country, concerning the base of retirees, new retirees, people who will retire between January 2025 and December 2029, that is, for this next cycle.

I think Mercantil is very well-prepared to acquire customers in various ways and channels. And this does not take away from the Bank in this new auction, it is worth highlighting, the competitive advantage we have from a regulatory standpoint compared to previous auctions. So, today we have a base of 40 million retirees, where Mercantil has important advantages by being one of the possible payers for this base, and we leverage this regulatory advantage by having few players with this asset, having participated in all the lots, in all the auctions.

We are talking about a static base of 40 million retirees, where we will have the advantage for the coming years until there is a mortality curve in this base. And the new base of retirees, we will have the entire competitive analysis, we will await the auction here, but we are talking about this new influx of customers, where the Bank has various ways to acquire them, one of which could be, depending on the tender, depending on the prices and competition, the auction itself, but several other strategies and value propositions for us to continue growing.

So, fundamentally, let's wait for the next steps of this tender, which is about to be released.

Marina Magalhães: Well, we received two questions about the cash position and Basel levels. The first question is: What is the benefit of maintaining a robust cash position in the current scenario? And the second is whether the Bank intends to maintain Basel at a high level?

Paulino Rodrigues: I'll take these. First, regarding the cash position, as I mentioned during the presentation, we always maintain a robust level, but it is higher than usual right now. This is partly due to a securitization operation we conducted in November of last year, which injected BRL 1 billion into our cash reserves, and also the CRI that we brought to the market in March, which added another BRL 500 million to our cash position.

This, combined with our organic funding, as presented, with almost 70% of the Bank's funding coming from its own channels, has resulted in us maintaining a higher than usual cash level during the first two quarters of 2024.

However, the trend is that as the Bank continues with its growth strategy, which has been extensively presented here and has been a constant in recent times, this cash level will converge to a more moderate level. If this doesn't happen, it could negatively impact the net interest margin (NIM) because when we look at interest-earning assets, cash occupied a much larger proportion than usual in 2Q24, exceeding 20%. Historically, this number for the Bank has been around 14-15%.

So, regarding cash, we closed with BRL 5 billion, and this is expected to move towards credit as time passes and the Bank continues with its accelerated growth strategy relative to the market. The other question was about capital and Basel?

Marina Magalhães: Yes, that's right.

Paulino Rodrigues: Well, we ended with Basel above 17%, which is a high level, as you know. Our internal benchmarks here, given the risk levels that management seeks to take on, are that we maintain a long-term reference level with Tier 1 above 12% and Basel above 15%.

Naturally, we are exceeding these two thresholds by quite a bit. However, we believe that given the Bank's growth and the context, the opportunities, and the growth the Bank has already shown, as well as other potential growth opportunities that may arise, in a context where access to equity in the capital markets is limited or cautious, as I mentioned during the presentation, we understand that this cushion is important so the Bank doesn't miss growth opportunities. But, we also recognize that it is a high level and that it should, in the medium to long term, converge towards our long-term target, which is a minimum Basel level of 15%, or about 2.5 percentage points below what we delivered in this 2Q24.

Marina Magalhães: Thank you, Paulino. Our next question is:

"How has the Bank managed to achieve profitability despite the tight margins on payroll loans?"

Paulino Rodrigues: This question comes up from time to time, also at events we hold with analysts, it arises quite often. So, to put it simply, the INSS payroll loan by itself will not deliver the levels of ROAA and ROAE that Banco Mercantil has been delivering.

So, how do we manage to deliver this? I think there are two major factors here: The first is the Cost of Risk. As demonstrated in the presentation, and as Gustavo mentioned during his participation, we do not control interest rates, nor do we control the INSS cap. What is within our control is credit risk, and we have been very successful in managing credit risk over the past few quarters or even years, even during a complicated period from a credit perspective. So, that's one aspect.

The other is the penetration of other products. We talk a lot about cross-selling, so today, the Mercantil client is not just an INSS payroll loan client. They have a range of other products, and this combination, when we look at our clients' P&L on a client-by-client basis, is what allows the aggregate of clients, which will be the Bank's results, to deliver the levels of profitability that we have achieved, even in a scenario where the historical spread on INSS payroll loans, if not the lowest, is one of the lowest in history at this exact moment, with the cap rate at 1.66% and the interest rates we have here in the country.

So, broadly speaking, that's it: the penetration of other products besides payroll loans, meaning greater client loyalty, and very competent credit risk management.

Marina Magalhães: Well, our next question is: "How does the Bank view the potential end of the Personal Loan FGTS option and the launch of private payroll loans?"

Gustavo Araújo: These are very heated discussions, it's a national-level debate. In our view, these are not mutually exclusive products; they could complement each other. But let's wait here, on one hand, for the discussion regarding FGTS, which is a product that has been losing depth in the market, as Paulino already mentioned. It’s a product that was launched just over two years, two and a half years ago, and it has a decreasing growth potential.

On the other hand, there is the possibility, the opportunity, being discussed, of a new product that would be the private payroll loan. We need to put our efforts into understanding how it will work, how the transfers will work, whether it will have FGTS as collateral, what percentage of that collateral will be, how the transfer of risk from the employer will work, and how the operational arrangement of all this will function, so we can understand the possible impact of this product. We also have to consider the legal aspects themselves, because to modify one product or the other, we would need approvals at the congressional level in both cases.

So, these are democratic discussions that are happening, and also technical ones, to understand the potential of each product, the possibility of both coexisting, and the entire arrangement of guarantees, which is not simple. All the working groups involved in this context, I think it will still take some time before we reach the maturity of these ideas and the necessary approvals, at which point we will be able to decide where to focus, given the competitive advantages we already have in place in our operations.

Marina Magalhães: Thank you, Gustavo. Thank you, Paulino. Everyone, we will now proceed to the closing of our event.

I would like to thank Gustavo and Paulino for their presentations, and I would also like to invite you all to check out our sustainability report. It was published on June 25th, covering the year ending in 2023. It details the Bank's main initiatives in environmental, social, and governance areas, and it is available on our website, so I encourage you to take a look.

Thank you all for your presence and participation in our earnings presentation, and I wish you all a great day.