2Q'23 Earnings Call Script

Operator: Good afternoon, ladies and gentlemen. Welcome to Nu Holdings conference call to discuss the results for the **second quarter 2023**. A slide presentation accompanies today's webcast, which is available on Nu's Investors Relations website: www.investors.nu in English and www.investidores.nu in Portuguese. This conference is being recorded and the replay can also be accessed on the company's IR website.

This call is also available in Portuguese. To access, you can press the globe icon on the lower right side of your Zoom screen, and then choose to enter the "Portuguese room". After that, select "mute original audio".

Para acessar nossa conferência em português, clique no ícone do globo ao lado inferior direito da sua tela Zoom e selecione a opção "Portuguese room". Ao acessar a nova sala, certifique-se de mutar o áudio original.

Please be advised that all participants will be in listen-only mode. You may submit online questions at any time today, using the Q&A box on the webcast.

I would now like to turn the call over to **Mr. Jörg Friedemann, Investor Relations Officer** at Nu Holdings. Mr. Friedemann, you may proceed.

Jörg Friedemann: Thank you very much operator. And thank you all for joining our earnings call today. If you have not seen our earnings release, a copy is posted in the Results Center section of our Investor Relations website. With me on today's call are **David Velez, our Founder, Chief Executive Officer and Chairman, Youssef Lahrech, our President and Chief Operating Officer, and Guilherme Lago, our Chief Financial Officer**.

Throughout this conference call, we will be presenting non-IFRS financial information, including adjusted net income. These are important financial measures for the Company, but are not financial measures as defined by IFRS. Reconciliations of the Company's non-IFRS financial information to the IFRS financial information are available in our earnings press release.

Unless noted otherwise, all growth rates are on a year-over-year FX neutral basis.

I would also like to remind everyone that today's discussion might include forward-looking statements, which are not guarantees of future performance and therefore you should not put undue reliance on them. These statements are subject to numerous risks and uncertainties and could cause actual results to differ materially from the Company's expectations. Please refer to the forward-looking statements disclosure in the Company's earnings press release.

Today our **Founder, Chairman and CEO, David Velez**, will discuss the main highlights of our second quarter 2023 results and provide an overview of our operations. Subsequently, **Guilherme Lago, our CFO, and Youssef Lahrech, our President and COO,** will take you through our financial and operating performance for the quarter, after which time we will be happy to take your questions.

Now I would like to turn the call over to David. **David,** please go ahead.

David Velez: Thank you Jörg. Good evening, everyone, and thank you for being with us today!

Although the financial sector in Latin America has continued to face challenging conditions over the past quarter, Nu has managed to maintain its positive trajectory with operating trends showing resilience and further decoupling from the broader markets. In Q2'23, once again, we achieved strong growth and increased profitability, while maintaining healthy asset quality. We continue to be extremely focused and committed to strong execution on our core priorities while also maintaining significant investment on future growth opportunities.

Turning to the main highlights of the second quarter, we continued to grow customers at a strong pace, ending the quarter with 83.7 million clients. Once again, net-adds were very robust in Brazil at approximately 1.5 million customers per month. We also resumed growth in Mexico, and expect an acceleration in the coming quarters as Cuenta Nu continues to be rolled out. Most of the Cuenta Nu customers added this quarter still came via cross-selling from credit cards.

Our business model continues to compound growth and profitability. Revenues reached US$1.9 billion in the second quarter, expanding 60% year-over-year. Our gross profit amounted to US$782 million, a 113% year-over-year increase, while our gross margin expanded again to 42% this quarter, consolidating the recovery initiated last year. Sequential gross margin expansion, alongside ongoing efficiency improvements drove a substantial increase in net income, which reached US$224.9 million, or a 53% quarter-over-quarter growth rate. Adjusted net income reached US$262.7 million, reflecting a 39% quarter-over-quarter increase.

This slide provides a high-level overview of our recent financial performance trends over the past two years, demonstrating our capacity to consistently expand both our customer base and revenues while compounding profits. During this brief period, Nu accomplished a significant milestone by doubling the number of customers from 42 million in mid-2021 to 84 million at the end of the second quarter of 2023. In addition, we surpassed 80 million customers in Brazil in July, establishing ourselves as the fourth biggest financial institution in the country by number of customers.

The strong growth of our customer base, linked to the increasing cross-sell and upsell opportunities suggested by the high engagement of our platform, resulted in our quarterly revenues multiplying by more than 5x in only two years on an FX Neutral basis, a triple digit revenue CAGR over this period.

The next chart of this slide illustrates our resilient underwriting capabilities. Quarterly gross profit, defined by total revenues deducted by funding costs, transactional expenses and credit loss allowances, increased by almost 5x in the period, with gross profit margins expanding accordingly even though credit delinquency has increased over the past twelve months and despite our conservative expected credit loss provisioning.

Lastly, all of the aforementioned drivers combined with the strong operating leverage of our platform and the initial maturation of our early products in Brazil, has led to a substantial acceleration in net income growth, particularly evident in the chart on the right over the past three quarters. We expect this compounded effect to continue in the coming periods, offering a valuable combination of growth with enhanced profitability in our platform.

As we have previously noted, Nu's inception in 2013 revolved around the concept of unbundling financial services. However, today, our most significant business opportunities lie in the rebundling of financial services by building a diversified multiproduct, multi-segment and multi-country portfolio of businesses. As shown in this slide, even our adjacent businesses have successfully garnered a million customers, demonstrating our remarkable cross-sell capacity.

As we will discuss ahead in this presentation, we believe other critical launches taking place this year will continue to help us earn the right to become primary banking providers of more and more customers, supporting our growth and profitability flywheel.

Now, turning to our profitability I'd like to highlight the evolution of the key financial metrics we presented over the past quarters. From this quarter on, we will focus on the numbers for our holding company only, as we understand that our Brazilian operations are already well understood. The momentum continued into the second quarter as you can see by the numbers on this slide.

As our three geos continue to scale and benefit from the inherent operating leverage of our model, our holding company is now translating its potential into profits. Nu Holdings recorded an impressive adjusted net income of US$263 million in the second quarter, representing an adjusted annualized ROE of 19%. These current levels of profitability already position us on par with many traditional incumbent banks in the Latin American region even though Mexico and Colombia are still in the early investing stages.

Even more remarkable, we achieved these results while maintaining regulatory capital ratios of 20.2% in Brazil and 42.2% in Mexico, significantly above the minimum required of 10.5% in both countries. In addition to the capital in our subsidiaries, it's important to note that our excess cash in the Holding level of US$2.4 billion means that we are extremely well capitalized to deliver on our expected growth ahead.

Finally, it is important to emphasize that we are delivering these sound levels of profitability despite significant investments in future products and geos as well as a robust 60% YoY revenue growth rate, which few financial institutions at scale are able to show.

As seen, once more we are very excited with the momentum of the business, and now I'd like to pass it over to our CFO Guilherme Lago, who will walk you through our numbers. Go ahead, Lago.

Guilherme Lago: Thank you, David. Good evening everyone.

As David noted, we delivered another set of strong operating and financial KPIs, driven by our simple, powerful, value generating formula.

- First, consistently growing our customer base across our three geos and rapidly converting them into active ones;
- Second, increasing average revenue per active customer, or ARPAC, by leveraging our cross-selling and up-selling capabilities; and
- Third, delivering sustainable growth while maintaining one of the lowest operating costs in the industry.

Now, let's look at the second quarter results to see once more how well these three elements keep generating value.

Starting with our customer base, which expanded by 28% year-on-year as we added 4.6 million new customers, reaching a total of 83.7 million customers at quarter-end. In Brazil, monthly net-adds continued at a level of about 1.5 million customers, achieved mainly through organic channels with very low customer acquisition cost. We are now the 4th largest financial institution in the country in number of customers according to the Brazilian Central Bank. As noted in our prior call, we have been achieving faster and sustained growth rates in Mexico since we launched our digital savings account Cuenta Nu. We have reached the mark of more than one million customers one month after its launch in May of this year. In Colombia, we already have 700 thousand customers and we expect to grow even more after the launch of our savings account in the country, planned for the end of the year.

Active customers increased 32% year-over-year with the monthly activity rate posting another consecutive quarterly increase reaching 82.2%, up from 80.2% a year-ago. We believe this positive outcome speaks to Nu's ability to continue growing our ecosystem while driving higher customer engagement.

Moving to our second pillar, which is revenue expansion.

As shown on the left chart, nearly 60% of our active customers are already primary banking relationship customers, which represents the percentage of our active customers who transfer out over 50% of their post-tax income on a monthly basis. In general, the more customers use Nu as their primary bank, the greater the number of products they use, driving successive increases in the monthly ARPAC they generate.

The second chart is our product cross-sell chart, which shows how we have accelerated the pace at which our customers use our products. As we launch new products we are successfully cross-selling them to our customer base and earning the right to become their primary bank.

Lastly, the third chart is our ARPAC chart. The more we engage our customers and the faster we increase our cross-sell and up-sell capabilities, the more sustainable the monetization of our expanding customer base becomes. This effect can be observed again this quarter, as our monthly ARPAC reached a new high of $9.3. The monthly ARPACs of our more mature cohorts are already at $24. Higher ARPAC led to another quarter of solid revenue growth, as shown in the next slide.

Monthly ARPAC continued its steady sequential growth trend, expanding 18% year-over-year on an FX-neutral basis. We are confident that there is still untapped potential for further ARPAC growth, bringing us closer to realizing our full ARPAC potential.

ARPAC growth along with the sustained expansion of our customer base resulted in a 60% year-over-year increase in revenue on an FX neutral basis, reaching a new record-high of US$1.9 billion.

Moving to our cards business, purchase volumes increased to US$26.3 billion, up 30% year-over-year on an FX Neutral basis. Growth was mainly driven by successful product upsell and cross-sell strategies along with higher customer engagement.

The right-hand chart displays how purchase volumes increase as cohorts age. Older cohorts consistently purchase higher volumes. It’s worth highlighting that newer cohorts appear to grow more slowly than more mature ones due to:

(1) a disparity in scale, as these newer cohorts account for almost 20 times more customers vs. older cohorts; and

(2) newer cohorts have, at least initially, a lower credit card penetration, using debit only, which usually implies lower ticket sizes.

Our market share in terms of purchase volume is at approximately 13.9% of the industry's total, with debit cards at 14.5%, and credit cards at 13.6%. We are confident that we can further increase our share in the future, given our steady new customer acquisition and the maturation of their relationships with us.

Our consumer finance portfolio, composed of credit cards and personal loans, reached US$14.8 billion, up 48% year-over-year.

Total credit card loans maintained their growth trend, increasing 54% year-over-year to US$12.0 billion as we continued to add new customers to our ecosystem while keeping our low-and-grow credit expansion approach. However, the highlight this quarter is the lending portfolio, which increased 33% year-over-year, to US$2.8 billion. Lending cohorts continued to perform better than expected, giving us the confidence to increase origination once again.

Let's now move on to the breakdown of interest earning loans in our credit card portfolio.

As we have previously discussed in our earnings calls, our focus remains on increasing the share of interest-earning credit card loans. Our interest-earning installment balance continued to expand and now makes up a record-high 19% of our total credit card loan book. Conversely, revolving receivables was kept at 7% of total credit card receivables for the fourth consecutive quarter. We believe interest-earning installments have attractive risk-adjusted rates of return that allow us to further monetize our credit card business.

As our lending portfolio continues to show strong resilience and a better than expected performance, we have once again increased our risk appetite and origination levels. This quarter, loan origination was up 53% year-over-year to R$7.3 billion.

The performance of our personal loans cohorts improved over the last several months, giving us the conviction necessary to increase loan origination. As our portfolio continues to show strong credit resilience, we progressively grow within our risk appetite, seeking to deploy capital profitably and consistently. The launch of public payroll lending complements this strategy, reinforcing our opportunities for growth in originations. We are confident in our ability to continue to drive attractive growth in lending. This belief is supported by our large customer portfolio, our best-in-class underwriting platform, our strong capital base, and our ample liquidity position.

Moving on to funding, total deposits expanded 23% year-over-year, to US$18.0 billion this quarter, as we advance on our goal of building a robust local currency retail deposit franchise to fund the majority of our consumer finance operations. Our loan-to-deposit ratio increased to 35%, up from 33% last quarter as we continue to optimize our balance sheet.

In line with our expectations, our cost of funding in Brazil was at 80% of the interbank deposit rate in the country, demonstrating our progress in leveraging the value of our robust liability franchise.

Just one month after the public launch of Cuenta Nu in Mexico, it hit an impressive milestone of 1 million customers. At the close of Q2, Cuenta Nu accounted for 1.3 million customers and received total deposits of more than 1.5 billion Mexican pesos, equivalent to nearly US$90 million with a cost of funding lower than 80% of TIIE, the local interbank rate, and significantly below our current cost of funding in Mexico. We believe our value proposition has been well-received, leading to a steady increase in new customers each month. This has contributed to further strengthen our deposit franchise in Latin America.

We believe the combination of the continued growth of our credit card and lending portfolios, together with the improvement of our funding cost, have contributed to the expansion of our net interest income, or NII, and net interest margin, or NIM, to new record-high levels.

Our NII gained another digit this quarter, reaching US$1.0 billion, which represents yet another strong growth of 133% year-over-year, resulting in an increase of 260 basis points in our Net Interest Margin quarter-over-quarter.

Now focusing on the last pillar of our strategy: maintaining a low cost-to-serve. We strongly believe that one of our platform´s most relevant competitive advantages is low cost-to-serve. In the second quarter of 2023, our cost to serve per active customer remained unchanged year-over-year at US$0.8, while ARPAC increased by 18%, underscoring the strong operating leverage of our business model.

As we stated in prior quarters, our aim is to keep our cost-to-serve at or below the US$1 level, as we believe our scale provides us with significant operating leverage and bargaining power with our suppliers.

Moving down the P&L, gross profit reached a quarterly record high of US$782 million, up 113% year-over-year. Our gross profit margin reached 41.8%, more than 10 percentage points higher year-over-year, consolidating the acceleration in the pace of expansion started in the third quarter of 2022.

We were able to achieve this result despite the fact that we had a higher level of provisions this quarter, resulting from the expansion of the origination of our lending portfolio, as we upfront credit loss provisions.

Operating leverage is a key element of our strategy. By further increasing revenues and maintaining a low-cost operating platform we have boosted profitability. As shown on this chart, we have improved our efficiency ratio over time. In the second quarter, it reached another all-time low of 35.4%, or 29.2% excluding share-based compensation, improving for the sixth consecutive quarter. This level of efficiency already ranks Nu Holdings as one of the most efficient companies in Latin America.

We expect to capture additional operating leverage as our scale increases through the continued expansion of our customer base, the upsell and cross sell of products, and the launch of new features, together with improved results in our new geos of Mexico and Colombia, which still operate with losses.

Lastly, we continued to drive increased profitability, delivering adjusted net income of US$263 million and net income US$225 million. These positive results confirm the effectiveness of our strategy and business model.

While we are very pleased with the results we have achieved so far, let me reinforce that we manage our business with a view towards long-term value creation. This can require additional investments in the short-term aimed at unlocking long-term value creations opportunities.

To conclude the review of our performance this quarter, let me recap the sustainable advantages across all four cost pillars:

- Number 1 on Cost to Acquire: we added almost 5 million customers in the quarter while maintaining one of the lowest Customer Acquisition Costs among consumer fintechs and banks globally.
- Number 2 on Costs to Serve: Our CTS remains below the US$1 level, which we estimate as being 85% lower than incumbents.

- Number 3 on Cost of Risk: we successfully managed the risk in our credit portfolio amid a challenging backdrop and continued to outperform competitors when comparing apples to apples – Youssef will provide more details on this topic shortly; and
- And number 4 on cost of Funding: we maintained our cost of funding at the level of 80% of CDI, as we began to unlock the potential of our retail deposits franchise, closing the negative gap we had against incumbent banks and widening the positive gap against consumer fintechs.

We are very excited about what we achieved this quarter and are confident in our ability to develop and scale best-in-class products, expand internationally and operate at low costs.

Now, I'd like to turn the call over to Youssef, our President and Chief Operating Officer, who will walk you through some highlights of our asset quality.

Youssef Lahrech: Thank you, Lago and good evening to you all. Once again, let me take you through some of the key indicators of asset quality and credit portfolio health for the second quarter of 2023.

Starting with the NPL trends.

Overall, our leading indicator, NPL 15-90, improved slightly over last quarter, decreasing by 10 basis points to 4.3%, in line with our expectations. Part of that drop was driven by the improvement in performance of our personal loan cohorts, as mentioned earlier.

The 90+ NPL ratio increased as expected, from 5.5% to 5.9%. As in past quarters this continues to be driven by the "stacking behavior" of loans moving through the delinquency buckets, as 90+ is more of a stock rather than flow metric. And, like in past quarters, we did not sell any credit receivables, which would have otherwise artificially decreased NPL rates by virtue of the "purging effect" of asset sales.

Renegotiations, for their part, remained at around 9% of the book this quarter and early half of those renegotiations came from loans that were current and not past due at the time of renegotiation.

Turning to the performance of our CC portfolio against the industry, this slide shows the time-series of NPLs by income band, with the purple line representing Nu and the gray line representing the industry. We continue to see our NPLs outperforming the industry on a like-for-like basis, and for lower income bands, our comparative advantage remains even more pronounced.

Similar to prior quarters, our provisions increased primarily driven by the growth in our portfolio. Remember that we front load provisions when we originate loans, based on the expected losses for the life of the credit in accordance with IFRS 9's expected loss methodology. The increase in provisions, therefore, is directly linked to the higher loan origination volumes recorded in the quarter.

Our risk adjusted Net Interest Margin reached another record-high at 8%, expanding by 140 basis points quarter-over-quarter, and 570 basis points higher than a year ago.

Having shared these data and perspectives on credit and asset quality, let me now turn the call back to our Founder and CEO, David Vélez, for his concluding remarks. David, back to you!

David Velez: Thanks, Youssef.

As we wrap up, I would like to talk about two relevant product launches that took place during recent months: Secured Loans in Brazil and Cuenta Nu in Mexico. We consider these two products as essential additions to our roadmap for both countries, given their relevance for us to grow our business and earn the right to become the primary banking relationships of more and more customers.

Regarding Secured Loans, we officially launched Payrolls for Federal Employees in April and started the testing phase of FGTS-backed loans a few weeks ago. Including Payroll in our roadmap is going to be essential for several reasons:

- First and foremost, we believe it gives us access to the largest asset class for consumer lending in Brazil, amounting to over R$600 billion. Currently, more than 35% of this market is already taken by Nubank's clients, but through other banks;
- Second, we believe that offering Payroll Loans, and now also FGTS-backed loans, is crucial for us to establish Primary Banking Relationships with an increasing number of customers. It serves as the ideal product for those that are eligible, enhancing our engagement with them. Importantly, in these new lines of products we have decided to price aggressively given the advantages of our business model efficiency and the fact that we are not going through intermediaries
- Lastly, incorporating Secured Loans into our portfolio is valuable due to the remarkably low level of effective losses associated with this product. We believe these initiatives will help us complement, balance and fortify our credit portfolio with lower-risk offers.

We are already living with all of these secured-credit products but still in testing mode with relatively small sample sizes. While we are still in the early days, we are on track with our expectations. The conversion rate is progressing satisfactorily, which can be attributed to our differentiated UX and attractive pricing. By eliminating loan brokers from the process, we have passed on some of the associated benefits to our final borrowers. In addition, the current level of losses for Payroll has been better than initial expectations. With a well established position in Payroll Loans in Brazil we seek to earn the right to become primary banking providers of more and more customers in the future.

Regarding Cuenta Nu, we officially launched it in May and within a month crossed the 1-million customer milestone in this product. By the end of June we reached 1.3 million accounts and collected more than 1.5 billion Mexican Pesos in deposits. Just for the sake of comparison, the average deposit per customer in Mexico is more than 10x the average of Brazilian customers' when our checking account was launched in the country in 2017. Cuenta Nu plays a pivotal role in our roadmap for Mexico based on three key factors:

- **Diversifying Funding Sources and Reducing Cost:** The LatAm markets are highly concentrated making it challenging to rely solely on wholesale funding, as competitors may not be willing to fund our growth. Additionally, securitization products are usually shallow in LatAm markets, and they often become inaccessible when needed the most. We believe that to grow a consumer finance business in LatAm, we need to develop local currency retail deposits to provide a stable and sustainable funding source, today with an effective yield lower than 80% of the risk free rate, and as mentioned before significantly below our current cost of funding in Mexico of funding rates plus 100bp, which means more than 12% per year;
- **Accelerating Customer Growth:** Cuenta Nu has the potential to unlock our referral flywheel, resulting in accelerated customer growth. Until the end of Q1'23 we could only onboard customers who met our credit card threshold, leading to a high decline ratio of approximately 70% of applications. Now with Cuenta Nu in place, we have the opportunity to onboard 100% of applicants, without necessarily incurring additional credit risk.
- **Data-driven Credit Underwriting:** Our credit underwriting engine is built on AI and machine learning, making it crucial to have sufficient data scalability. The faster we grow our customer base, the more refined and accurate our credit assessment becomes, strengthening our risk management practices and supporting responsible lending.

Notwithstanding the fact that the maturation curve of new products usually take a year, we could not be more optimistic about the future, given not only our early progress in these new launches, but also the upcoming additions planned for the second half, which include, to name only a few, payroll loan portability and refinancing, INSS payroll loans, FGTS lending and Cuenta Nu in Colombia.

As we have repeatedly stated, together with our customer attraction and cost differentiation, superior products and services foster our cross-sell and upsell capabilities, which are essential for our business model, supporting retention, loyalty, growth and profitability.

With that, we would like to take your questions now. Thank you very much.

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Operator: We will now start the Q&A session for investors and analysts. If you wish to ask a question, please press the "reaction" button and then click on "raise your hand". If your question is answered, you can exit the queue by clicking on "put your hand down". Please limit yourself to one question and a follow-up. If you have further questions, please re-enter the queue. You may submit online questions at any time today, using the Q&A box on the webcast.

I would like to turn the call over to Mr. Jörg Friedemann, Investor Relations Officer.

Jörg Friedemann: Thank you, operator. And our first question comes from the line of Tito Labarta, Goldman Sachs.

Tito Labarta, Goldman Sachs: Congratulations on another strong quarter. I guess my question is on the level of provisioning good loan growth, and the loan growth drives a lot of the provisioning. But just to think about it, early NPLs showed a slight improvement there. We've kind of seen that across the industry. Just to think about when provisioning can maybe become a tailwind, right? I mean your gross margin did improve in the quarter. Despite that, you mentioned in the past I think gross margins can eventually get to 60% level or so, I know when you're much more mature. But if the credit outlook is improving, can that potentially be a tailwind in the foreseeable future?

Youssef Lahrech: Tito, this is Youssef. Thanks for the question. So look, we don't provide guidance on credit quality or delinquencies or consequently provisioning from a forward-looking perspective. But I mean you can take a look at how the coverage ratios have trended in the appendix of our earnings presentation, page 33, I believe. And from a coverage of 90+, it's been fairly stable around 213%, 214%. And the coverage balance generally mirrors NPL 90+, and it has been largely performing per expectations. So to your point, should delinquencies improve? Obviously, provisions can become a tailwind, but we'll see actual performance as it comes in.

Tito Labarta, Goldman Sachs: Great. Thanks, Youssef. And if I could follow up, I guess, just a little bit on the loan growth, in particular, David, you highlighted payroll loans have now launched. I think any just initial color on how that's tracking and if that can be significant in the second half of the year? Or is that more, will take a little bit longer because that could also be another potential tailwind to that cost of risk, given just the risk on the payroll loans that are a lot lower?

David Velez: Tito, yes, absolutely. So we had to integrate a number of different contracts to launch payroll loans. We did that already. We're up and running on Q2. We've been integrating the product, making sure it's a great product for consumers, easy to understand. We're getting more and more comfortable with the type of feedback we are receiving. And I think you'll start seeing us increasing the pace of originations over the next few quarters, if everything goes according to plan. But yes, I mean, I think over the next few quarters, you should start seeing meaningful demand. And again, this is the largest profit pool in financial services in Brazil, so it is a very large market. And as we've said in the past, our customer base accounts for something like 35% of that entire profit pool. And we have a great product going directly to consumers, and we're pricing very effectively. Interest rates are 30% to 40% below market. So we think we have a very good value proposition that should allow us to take significant share in this market. But again, we'll have to take step by step and see how those goes and we start rolling it out to the entire customer base.

Guilherme Lago: And Tito , if I may, complement here a few thoughts on payroll loans: we have launched SIAPE as a pilot test in the second half of the year, we're going to launch INSS and Portability. And I highlight portability because in a declining interest rate environment, the ability to actually port loans from other banks may be a relevant source of growth for us, and it's something that we intend to lean in heavily over the coming quarters. Having said that, I do not expect that payroll loans will actually move the needle that much in terms of P&L and loan balance in 2023. I think it is more something for 2024 and beyond.

Tito Labarta, Goldman Sachs: That 's great. Thanks David, Lago and Youssef. And congrats again for the great quarter.

Pedro Leduc, Itaú: Thanks guys and congrats. Good evening everybody. One on service revenues. Great job there as well. I think interchange seems to have been flattish despite the limits. How do you guys see that going forward as well? You mentioned credit appetite slowly there as well.

And on the second part, on funding costs, the surge in deposits, very nice to see at very stable costs. And now on the ground, we see you guys looking for longer-term instruments that would cost more than 80% of the CDI. So just, of course, there's other ways to keep it cheap, but just give us some color on how you're seeing that going forward, the interest or the liabilities, cost of funding mix, given that it's changing a little bit. Thank you.

Guilherme Lago: Pedro, this is Lago. Thanks so much for your question. I do believe that we will progressively increase the duration of our liabilities as we increase the duration of our assets. So we will continue to actually match very well our asset liability book. However, we believe that we could do so, still with a very healthy balance of short-term deposits at relatively low cost of funding at around 80% of CDI. And we can entertain other pockets of liquidity in the Brazilian and international markets that would allow us to increase the duration of reliability.

So we have recently started to issue longer-dated time deposits in our platforms and we have been very pleased with the results. So I would basically separate we have the short-term deposits that we believe will continue to grow at 80% of CDI average cost. And then we have other pockets of liquidity that will be more than sufficient to provide us with adequate asset liability management as we scale progressively, primarily the book of our secured lending consignado business.

Pedro Leduc, Itaú: Right, thank you. May I do a follow-up as well?

Guilherme Lago: Yes, absolutely.

Pedro Leduc, Itaú BBA: Yes. All right. When I look at your credit balance, a very nice portion of the interest-bearing growing. And then when I look within the credit card composition, the revolver, the *rotativos* are basically flat QoQ, in reais, while the others now, especially interest rate installments grow. It's a very nice achievement, especially given all the discussions surrounding this line about the revolver. You can elaborate with us and shed some light on how you've been able to grow the others, keep that one sort of flat despite the growing TPVs, that would be great. Thank you.

David Velez: Sure, Pedro. Here's David. So we, from the very beginning, built a strategy and credit card to focus on transactors. We never loved the revolving business for the reasons that you know very well, which is a market that has a number of different complexities across the chain and ultimately forces issuers to charge very high interest rates. We never like that. And so we've decided to build in the beginning a model that looks for transactors.

And in fact, if we could have, since the beginning, if we could have a model that had 100% transactor, 0% revolvers, we would choose that. We would very effectively make money only on interchange. However, it's impossible. The models are not perfect. And so you end up having a percentage of revolvers. But they are kept to effectively the minimum and customers that come in and effectively have a higher probability of revolve, we wouldn't accept them to be a credit card holder. And that's why you see us having such a smaller percentage of revolver of 7% versus the average market at 16%.

Now we see that there are other opportunities to use financing that is good for the customer, where there is real price elasticity, and we can price at a much lower interest rate. And specifically in our case, fixed financing over the past few quarters has been great avenue where we allow customers to finance their purchases over a number of installments at lower and much lower interest rates creating this portfolio of much longer dated, lower delinquency, lower interest type of portfolio, which is ultimately much healthier for us and much better for customers. So that is effectively the part that we want to grow. And so that is what you effectively see in Slide 14, where you see us growing that kind of interest-bearing balances from 8% to 19% while trying to maintain the revolver to its minimum.

Eduardo Rosman, BTG Pactual: Hi everyone, congrats on the numbers. I have a question related to the revolving credit card theme and these potential changes in *parcelados*. What's your take on that? Should we expect something relevant to happen? If there's a cap, shouldn't this be an opportunity for Nu, given its much lower cost to serve? You also just mentioned that you have less revolving than peers. So any color here would be great. Thanks.

Guilherme Lago: Rosman, this is Lago. Thanks for your question. So the discussions around the economics of credit card in Brazil have been going on for years, and they have certainly intensified over the past few months, involving both the government and many credit card issuers. But those discussions are not simple because the topic is really highly complex. As you know, credit card represent a very big industry in Brazil. It accounts for about 40% of the personal consumption expenditure or PCE of the country and over 20% of the GDP of Brazil. In 2022, the purchase volume of credit cards accounted for over BRL 2 trillion.

So it's a very important, very large industry and any drastic or material changes to its dynamics may have fairly no relevant and material consequences to the economic output. I think all of the industry participants, the government and the regulators are fully aware of this, and we are very confident that the industry will provide an adequate solution that we even evolve and further the product in a better equilibrium.

I think it is very hard for us, Rosman, at this point in time to draw any high conviction outlook as to what is going to happen over the next few weeks or months. But we do not expect any drastic changes in the unit economics nor do we actually believe that interest rate cap will be welcomed by many of the industry participants or the regulators given the material negative impact that it may have on credit availability.

Yuri Fernandes, JP Morgan: Congrats for another very good quarter. I had one question regarding Brazil, on the profitability. I understood that the focus would be the holding but when we look at the earnings from Brazil, Brazil was maybe $190 million. It's a good increase from the previous quarter, $20 million but now we see an increase in maybe other markets or maybe the whole number. I just want to check this, what is the difference between the $225 million you printed in the holding in Brazil that in the previous quarters of the profitability of the company. Just checking if it's the cash at the holding at a higher rate, something like that.

Guilherme Lago: Yuri, I think 2 comments here. One, I would be very cautious of drawing conclusions on the profitability of our Brazilian operations by looking only at the figures that we provide to the Brazilian Central Bank because these figures, they account only for our legal entities that are fully regulated in Brazil. They do not account for 100% of our operations in the country. So I wouldn't necessarily draw much from what is reported in the Brazilian Central Bank.

Your second question, though, it's intuitively, yes, I think the way that we operate, we have profitable operations in Brazil. We have profitable operations at the holding company, largely as a result of the investment of the $2.4 billion of cash that we have there. And we have operations in Mexico and Colombia. They are still posting losses as they are in high-growth investment situations.

Yuri Fernandes, JP Morgan: No. Thank you, Lago, I was using your presentation. I guess you still have Brazil out there, and I know it's very similar to the report of the Brazilian Bank, but I guess it is to have the Brazilian consolidated earnings there. And if I may, Lago, just a second follow-up here. Higher income clients, how relevant is this for your strategy here for Nubank? Because you kind of have a very good share on lower income and middle income. And this is a common topic we discuss with investors so we would love to hear your thoughts about higher income clients.

Guilherme Lago: No, absolutely. So look, the high-income venture into the high income sector is one of the company's priorities for the 2023-2024 period. And we have invested a good amount of time and resources trying to understand globally how companies have succeeded breaking into the high-income segments in many parts of the globe. And we have basically crafted a strategy that is composed by 2 steps. One step is customer acquisition. The second step is customer monetization.
I think in the first step, which is customer acquisition, when we look to the past 18 months, we are fairly well pleased with how many high-income customers we have acquired in the country, if you define a high income customer as a customer who earns more than BRL 12,000. We already have over 60% of the high-income customers of Brazil being customers of Nubank. So I think the first step of this 2-step strategy has been very successful so far. We are now entering into the second step, which is to deepen the relationship of those customers and to be able to increase our share of wallet of them.

So if you compare the demographics of the customer base of Nubank with the customer base of incumbent banks, you see that in terms of number of customers, we have a relatively similar breakdown between low income, middle income and high income. However, our share of wallet in the low income and middle income is still much higher than our share of wallet in the high income and there lies the huge opportunity that we have to grow customer monetization in Brazil over the coming 1 or 2 years.

However, Yuri, the growth into any new kind of demographic or segments, it's not a sprint, it's a marathon. By which I mean it's not something that we're going to be able to show results in 1 quarter, 2 quarters. I think it is a matter of a few years in which we will strengthen our value proposition and progressively grow into this new segment.

Thiago Batista, UBS: Guys, congratulations for the results, very strong results. My question is about the good surprise of the ROE of 17% that you guys posted this quarter. Even with excess capital and also with losses in Mexico and Colombia, this level is already higher than most of the incumbents in Brazil in line with Itau retail business and since that Nubank has structured a better efficiency ratio than peers. So my question is, how do you believe Nu will play the superior efficiency in the long term? So the bank should deliver or the fintechs deliver a much higher ROE than peers? Or part of this will be shared with clients and consequently, Nu tend to have a much lower price than peers. So how you guys are likely to play with superior efficiency versus peers?

David Velez: Yes, great question. I think it talks to the heart of the digital banking strategy we've been pursuing since the very beginning, which is similar to what you've seen when you have technology companies, fully digital technology companies competing with traditional companies that are more offline operations. We have the opportunity to use the efficiency of our business model that now you can start really seeing especially around the operating efficiency on behalf of our customers, so that we provide a product that has higher quality and lower cost, allowing us to win more share. And so you start creating a bit of a flywheel where you gain share, you gain scale, that scale gives you lower cost to serve. You then go back and pass that efficiency, again to the customer via better products and even lower pricing and you have these reinforcing flywheel. We expect to do that in banking. So part of our initial value proposition was charged 0 fees. So even since the beginning, we started already charging no fees on that side and that meant an opportunity to compete on price.

But as we grow and we get more data and our models mature and our cost to serve to decrease even lower, we can then start doing both lower fees and lower prices in credit products. So specifically to your question, we think we're going to be doing both. We will use the advantage of the business model to both gain share as well as ultimately see a higher return on equity than traditional incumbents given ultimately, this cost structure advantage is very strategic, and it's going to be hard for competitors to match that cost structure advantage in a short period of time.

Thiago Batista, UBS: No, very clear. If I can do a follow-up, my follow-up would be regarding the artificial intelligence, if you guys are already using these? And where this should improve the bank's operations. So it will be more on costs? More on the on the asset quality? So how this should improve the operations of the bank?

David Velez: Yes. So we've been actively users of artificial intelligence already for a while. We've also been investing a lot in understanding how specifically large language models can have different applications for us. We think there's really application everywhere from obvious uses around providing better customer service at lower cost or cost efficiency, for even applications around fraud, anti-money laundry and defense, we're getting very excited about the type of application that we can see that, but then especially also on the consumer-facing front. So reinventing the user experience for consumers.

One way that we've talked in the past is that when we started the company, we saw the smartphone as a way to put a bank in every consumer's back pocket. We think AI is going to be the opportunity to put a bank and a banker in every consumer's back pocket. And that is going to really be the enabler of democratizing access to the best financial services products to the 95% of the population that even today don't have great access to the best products. So we're big believers on the different avenues of opportunity that this technology opens up both on the offense, both on the user experience as well as a lever to increase even more efficiency of the model.

Geoffrey Elliott, Autonomus: Thanks for taking the question. I wanted to ask about Mexico, clearly quite a different credit card market from Brazil. And I imagine the revolving part of the business is much more important given the different economics. How are you seeing credit in Mexico? Can you give us a feel for how credit quality has been performing, maybe a sense of what you've seen there compares with Brazil?

Youssef Lahrech: Geoff, this is Youssef. Thank you for the question. Yes, you're right. There are some important structural differences in terms of the credit card product in Mexico, how our customers view it and use it. It tends to be much more of a borrowing vehicle rather than a payment vehicle, which tends to be the predominant use in Brazil. So consequently, you see a couple of things. You see higher interest-bearing receivables, you see higher risk as well. On net returns are actually comparable, if not better, than in Brazil.

Maybe the other salient thing that I would point out with respect to Mexico is the levels of penetration of financial services in general and credit cards, in particular, are much lower than in Brazil. So that will lead to much more of a financial inclusion play and consequently, just higher levels of delinquency. But we've been very pleased with what we've seen in Mexico in terms of the traction we've gotten in the market since our entry about 3 years ago, closing in on 4 million customers now having launched our second product. We think the launch of Cuenta is going to be a game changer in terms of being able to approve everybody as a customer in terms of gathering data in terms of building ultimately principality and higher levels of engagement. And so we're quite pleased with the traction so far.

David Velez: The one point I would add, Geoff, on Mexico also is that the fact that Mexico and also the later Colombia is more of an unbanked story versus a bank story, which was Brazil. Creates both a challenge as well as an opportunity, a challenge, obviously, because we have to underwrite as we grow to a percentage of the population that never had access to credit, which means that there are times we going to have to slow down a bit retreat, read our model, accelerate a bit, pause, and we're totally comfortable with doing that. That's how we built our models in Brazil and we tend to accelerate. We put a new model into production. We test a number of different alternatives.

So we'll have to do a little bit -- we have to be a little bit more careful as we go into this new territory. But it's a great opportunity because if we crack the code, then we really are the only one in the market that knows how to underwrite 88% of the entire population because the traditional banks have been there for decades, and they haven't done it. They've continued to provide credit cards to 12% of the population that already have credit cards. So you only get a credit card if you have a credit card. It's the safest, lowest risk strategy, obviously, but there is no real differentiation there. So we'll take our time and you'll see us accelerating and pausing at times, but ultimately, we think it's a really exciting market because we can build a real moat in how to underwrite and provide credit to effectively the majority of the entire country.

Flavio Yoshida, Bank of America: Hi, everyone. Congrats on the results. So my first question is on payroll loans. So I was wondering if you guys could share some details of the evolution under the SIAPE operation. Is it coming better than expected? What are the main challenges faced so far? And how should we think about the overall NIM and ROE for Nubank going forward given the fact that payroll loans should have a greater relevance on the total portfolio especially taking into consideration that payroll loans, interest rates are lower than cards and personal loans as well?

Guilherme Lago: Flavio, thanks for your questions. We have launched what we, I would say, is a partial launch of our consignado business in Brazil. We started in late April by launching only the SIAPE product but still without portability, right? So I think the main features that we're going to be adding in the second half of the year are fairly important for us to be able to ramp up the product mainly the portability of SIAPE plus INSS plus FGTS.

So I think with those 3 asset classes, we will have on our shelf, products that represent the book of the secured credit market in Brazil, which is the single largest target of the addressable market in the country. So we are super encouraged with the early results. And what we have seen so far since we started to operate with consignado back in April, as I mentioned, is fairly strong signs of product market fit.

So customers love the product. Conversion has been better than expected, and we have been able to have lower-than-expected operational losses for it. So we like what we find so far, but it's too early to call kind of a victory. It's going to be a longer journey. We don't expect that consignado or FGTS will move the needle in 2023 in terms of loan originations or loan balance, but it will be fairly important for us for the next 3 to 5 years as it represents the largest market in Brazil.

Now it will, as you correctly pointed out, involve lower net interest margins, which is the essence of the payroll loan business in Brazil. However, it will not necessarily come with much lower ROEs because it also draws less regulatory capital, and we are confident that given our cost structure, we will be able to deliver growth, lower prices to consumers and still very compelling levels of ROEs. I think we've mentioned in the prior calls that we are aiming to have an ROEs of about 30% of our loan book and we do expect that the combination of all of these products will be able to deliver on that.

Flavio Yoshida, Bank of America: Okay. Very complete answer. And my second question is a follow-up on Yuri's question. So this was the first quarter that we saw a positive result for the holding company without Brazil. And I was wondering if there was any change in the investment strategy and if we should expect further positive results in the coming quarters?

Guilherme Lago: No. I think what we have seen is a slightly better results in our treasury operations at the holding company, given the $2.4 billion, $2.5 billion that we have there. But mostly as a result of the more benign markets that we have, our investment policy at the holding company has been fairly conservative, and we expect to continue to be fairly conservative investing in basically very safe and liquid investment assets.

Rafael Frade, Citibank: Congrats on the numbers. I have a question only related to capital. So I understand that now you are ready for the third quarter, you should already have all the regulated entities in Brazil under the same umbrella in terms of capital. So just to have a sense of what would be your BASEL at this current configuration?

Guilherme Lago: Yes, Frade, so just for the purpose of everyone here, so we are all on the same page. I believe you are referring to the Resolution 200 that the Brazilian Central Bank enacted back in the first quarter of 2022 which harmonized the regulatory capital regulations for both payment institutions and financial institutions. We at that regulation became effective July 1, 2023. And we have now, as you correctly pointed out, Frade, been operating as a regulatory, a financial conglomerate in Brazil, encapsulating our payment institution and our financial institution.

If we look at our financial institution, only our BASEL ratio is above 20%. If you were to look at our whole conglomerate our capital ratio would be closer to 12% in Brazil compared with the minimum regulatory requirement of 6.75%, which is the metric that is being used by this new regulation. So we have almost twice as much capital than we need to operate in Brazil.

Daniel Vaz, Credit Suisse: Everyone, David, Lago, Youssef and Jörg. Congrats on the strong results. My question is practically a follow-up on Frade's question. There's also a potential significant increase in your CET1 or BASEL ratio from July onwards considering the Central Bank 229 Resolution and consequent reduced RWA factors considering the transactional portion of your credit card portfolio. So on the net impact from the 30% already from the Type 3 prudential adjustments and this 229, would it be correct to assume that you're net positive for capital ratios? Or have you calculated the impacts already? Thank you.

Guilherme Lago: I think we are super well capitalized. Our capital in Brazil far exceeds the regulatory capital requirements that the new regulation imposes on us, without mentioning the $2.4 billion in excess capital that we have in our holding company. So we are fairly comfortably capitalized. To give you just a general sense, Today, our capital position in Brazil amounts to approximately $2 billion. The minimum regulatory that we have is about $1.2 billion. So that is the buffer that we have to operate as of today. And our Brazilian operations, as you have pointed out, continue to be quite profitable, generating relevant amounts of earnings. So we do expect to continue to have a very comfortable capital position.

Daniel Vaz, Credit Suisse: So Lago, maybe a follow-up here. So we see a good level of BASEL ratio with also strong profitability of 17% ROE at the holding level. So with this good level of organic buildup, is management considering to distribute dividends or somehow we should expect a stronger capital buffer to support increased origination levels for credits for example?

Guilherme Lago: So at the holding company level, we have no plans to distribute dividends at this point in time. We do believe that the amount of earnings that we're going to be able to generate in Brazil and later on in Mexico and Colombia will basically be reinvested in organic growth opportunities that we have ahead of us in those 3 geos, right? So what we may do at some point in time is do distributions from Brazil to the holding company and to optimize our capital structure, but we believe that most of the early surplus will be generated and reinvested in the business in the foreseeable future.

Neha Agarwala, HSBC: Congratulations on the good quarter. My first question is on yields. When I look at the yields for both your credit card and your personal loan portfolio. Only the interest-bearing part. I see that the yields in the last 2, 3 quarters have been going up. Are you consciously repricing up, which is leading to high yields? Or is there any other factor playing in there? And I contrast that with I think what you mentioned, if I heard it correctly, about the payroll loans that you would like to use your cost advantage in the payroll product and be competitive in terms of pricing for the payroll product. Is that correct? And should we expect a similar trajectory for the personal loans and credit card products as you gain profitability?
My second question is a quick one on the cost-to-income ratio. Given the growth you have to deposit products in Mexico and given future growth in Mexico, do you expect to accelerate investments in Mexico? Or are you at a level where you have all the fixed costs required to operate in Mexico? Thank you so much.

Guilherme Lago: Neha, a lot of questions in this one so let me try to slice them a little bit. In terms of our repricing, our personal loans and credit card business, the answer is no. We have basically operated with similar pricing levels over the past few quarters. You may have seen a change in the mix of the products within each of them. And that may have been what actually has driven a little bit more of yields in each of those products. In credit cards, what you will see in the effective yield of the total portfolio, is the greater relevance of the interest-bearing balance. As you may see here, on Slide 14 of our earnings presentation. But in short, no, there has not been any material repricing in our credit cards or personal loan business in Brazil over the past few quarters.

I think your second question is on whether we expect to translate the pricing effectiveness that we believe we will be able to implement in *consignado* or payroll loans into credit cards and personal loans.

And I think that the general answer is, yes, we do expect to translate additional cost advantages that we acquire into progressively better terms and conditions for our customers throughout all of our products. So whenever we see compelling opportunities, we will flex the pricing muscle accordingly in a very analytical manner.

Now, I'll pause here, Neha, on pricing to see if I address your question before I go into the efficiency ratio.

Neha Agarwala, HSBC: So just to clarify, on the personal loans and credit cards. So you would be probably competing on pricing or reducing prices for these 2 products in the coming quarters?

Guilherme Lago: Well, I don't foresee any material changes to our current pricing policies in the short term, in the next 1 or 2 quarters. Conceptually and in the medium and long term, we do expect to actually use our better cost advantages to leverage pricing muscles and be even more competitive in those markets.

David Velez: Although Neha, as I said earlier, we do our pricing below in the new secured lending type of products that we're launching. So ultimately, if secure lending, what we call *consignado*, does end up growing and being meaningful, that will decrease the average rate that we're charging across the entire portfolio that would also dilute some of the losses and delinquency numbers that we also show for unsecured lending.

Guilherme Lago: And then Neha, trying to address the second part of your question, which is on efficiency ratio. So as you note on Page 20 of the earnings presentation, we have reached about 35% cost to income. We do not believe that we are anywhere near our efficiency frontier. We think we can actually continue to improve the efficiency ratio going forward, nor do we expect that the additional investments that we're going to make in Mexico and Colombia, will preclude us from continuing to make advancements on those fronts, right?

So we have already front-loaded quite a lot of the investments that we have made in Mexico and Colombia, especially in terms of headcount and the velocity through which we're going to grow headcount over the next, let's say, 12 to 24 months. It's probably going to be lower than the velocity through which we grew headcount over the prior 24 months.

Neha Agarwala, HSBC: Great. If I can squeeze in just one last thing. The asset quality seems to have turned around and stabilized, early delinquency is stabilizing for Brazil. You seem to be having good momentum in Mexico. What are some of the key challenges or concerns that you're mindful of in the coming quarters?

David Velez: I think a lot of the challenges or the main challenge that we are all here very much focused on day in and day out is around, I would say the 4 key priorities we've been discussing since the beginning of the year. I'll go through them quickly. The first one is secured lending. So we launched secured lending in Q2. Now we got to see it scaling. It's a big opportunity for us. And it's all about execution, high income. As Lago earlier said, it's a marathon, not a sprint because it's a competitive space, and there is a lot that we need to build to win in that category and to get to the share that we want to be getting. So we're putting all hands on deck trying to put together a great value proposition there for that customer segment that we already have in the building, which is the good news, but we need to figure out how to increase the share.

And then really cracking New count and funding in Mexico and Colombia, which are a critical aspect to decrease funding costs in both countries, get the funding that we need to continue growing in both countries and also accelerate user growth, customer growth. So those are the 3 key kinds of priorities for us in the company that we are very much focused on.

I think beyond that, it really is the multiproduct story. It is this evolution that has already taken a couple of years, and we need to continue executing on becoming a full complete portfolio of products, of financial products. And then beyond, as we execute the marketplace strategy, we have already integrated over 150 different commerce partners into our app. People are being able to make reservations in our app. People have been able to shop in our app. We see the opportunity of us being bigger than a financial services firm.

We think the opportunity is a consumer technology platform where over 85 million customers that have very significant engagement and usage come to transact in a number of different ways, and we're able to help them even beyond financial services. So that is going beyond financial services that takes a number of different skill sets and learnings that we are trying to build in-house. And there is a lot of focus in-house also executing that core part of the longer strategy of the company.

Alexander Markgraff, KeyBanc: Maybe just first, I would love to hear a bit about how credit limits within the credit card product have changed kind of on a sequential basis through the year as you look at new cohorts.

Youssef Lahrech: Alex, this is Youssef. So our approach generally on credit limits is to start with a fairly conservative credit limit, also known as the low and growth strategy for most customers, especially the customers tend to be in the middle to higher risk segments of the universe. And so what you observe is for a given cohort, we tend to start pretty low and then expand as we observe data and good repayment and performance behavior. So on a given cohort, you'll see fairly rapid expansion of credit limits. But then as new cohorts show up, they tend to dilute the average. But in general, I would say the rate at which we're increasing credit limits has been pretty steady across the last couple of quarters.

Alexander Markgraff, KeyBanc: And just to clarify, the starting point, I guess, is part of the question that level of conservatism, has that changed materially?

Youssef Lahrech: No, it really hasn't. I mean, as a matter of fact, our general credit philosophy is irrespective of the point at which we are in the cycle. We subject any new credit grants we have any new cohorts to fairly high requirements in terms of resilience. So typically, we expect whether it's our credit card or personal loan cohorts to be able to withstand a doubling of losses and still be above hurdle in terms of returns and NPV positive. And so that's what we do kind of throughout the cycle, and that hasn't really changed materially in the past.

Alexander Markgraff, KeyBanc: Okay. And then just one quick follow-up on the cost to acquire is kind of moving higher in the last several quarters. I mean the paid marketing component seems to be stable. Just wanted to understand what's driving that. Obviously, it's still a very good number, but I just want to understand what's taking it to $7 versus what was previously I think $5?

Guilherme Lago: Alex, what we have seen in customer acquisition cost is our being a bit more aggressive in Mexico and Colombia as we expand into these geos. And especially at the beginning when we were operating with no credit cards only. What you will see, however, in Mexico over the coming quarters is as we launched Cuenta Nu, our banking account product, and millions of customers are onboarded, the customer acquisition cost of Mexico to come down. What we expect, however, going forward is customer acquisition cost to be between $5 and $10, and that range still provides us with what we believe to be a very compelling LTV to CAC.

Eugene Simuni, Moffett Nathanson: Great results here. I just wanted to ask about card issuance volumes trends in Brazil and for you guys obviously, a very strong number with kind of 30% year-over-year growth in your purchase volume, FX neutral, I believe. Much, much better consistently than what Brazil market is doing. But it is decelerating at a relatively rapid pace. And when we look at the Brazil overall numbers kind of with Apex reports, there seems to be significant deceleration this year as well. So just curious to hear your thoughts on kind of what's going on in the market overall in terms of card issuance in Brazil, maybe some impact from PIX that you are seeing and then how that then gets reflected in your personal growth and kind of what we can expect in the second half of the year and going forward?

Guilherme Lago: Eugene, I think it's very hard to address this question without making reference to the normalization post-COVID. What we have seen over the past 2 years, I would say, 2021 and 2022 in Brazil, it was a very strong recovery from COVID loss. And a fairly aggressive extension of additional credits in the country, additional credit cards in the country. And over the past, I want to say, 6 to 12 months, you've seen deceleration of credit expansion in consumer finance in Brazil, including but not limited to credit cards.

We continue to outpace the industry by a fairly large amount. We have been gaining market share at a clip of about 40 to 50 basis points per quarter throughout the past quarters. And we expect that this pace is to continue in the coming quarters even though we do not necessarily target kind of a market share goals. But the pace at which we have been able to onboard new customers, the pace at which we have been able to mature existing cohorts and cross-sell credit cards suggest that we will continue to gain market share at good paces in the foreseeable future.

Eugene Simuni, Moffett Nathanson: Got it. And just maybe a very quick follow-up. Are you seeing any sort of negative impact from PIX' success on card volumes?

Guilherme Lago: No, absolutely. No. I think what we have seen is PIX being a phenomenal kind of a payment mechanism in Brazil. But first and foremost, what PIX has been cannibalized in our view is cash. So that's the first item that PIX has been cannibalizing. We also have seen some early signs of PIX potentially cannibalizing debit and prepaid cards but we have not seen any evidence of PIX cannibalizing credit cards. In fact, if anything, what we have seen is a very strong correlation of the adoption of PIX and financial inclusion in Brazil and financial inclusion in Brazil sometimes comes coupled with the expansion of credit cards. It's also a relatively similar trend to the one you may have seen in India with UPI, but still early to draw any parallels between those 2 geographies.

Youssef Lahrech: This is Youssef. I would just also reiterate something that David spoke about in the past, which is first order impact for our portfolio of PIX on credit has been the rapid adoption of PIX financing using credit card limits. And so that's been a big driver of the increase in interest-bearing balances for us. So that's been a tailwind, quite frankly.

James Friedman, SIG: Thank you Jörg. Lago, in your prepared remarks, you observed the strength in the debit and prepaid component of the newer cohorts. And just looks like Slide 9 and 10. I'm just wondering, as that population or that representation increases in your portfolio. Are there specific products for financial inclusion that you would think would be better targeted towards that type of population? Just curious about the debit prepaid mix.

Guilherme Lago: I think if I can draw your attention to Slide #12, you will be able to see the evolution of credit cards and prepaid theirs. And as I have noted before, for the younger and earlier cohorts you do see a higher preponderance of prepaid cards there. And we think that, that is a good pathway into a consumer credit strategy inside Nubank in which we can start a relationship with a customer with a prepaid card only.

As we learn more about the customer, their income patterns, spending patterns and savings patterns we can progressively gain more comfort and offer this customer a credit line in a credit card. We usually start, as Youssef mentioned, with a relatively low credit lines through low and grow. And then as the customer builds, he's our whole own kind of a credit history of us, we expand this over time. And you can see that the purchase volume follows this expansion. Usually, purchase volume can triple within the first 24 months, that has been very successful in the form of customer engagement, but also in the form of asset quality. And it's probably a formula that we expect to continue to pursue in the coming years.

James Friedman, SIG: Thank you Lago.

Jörg Friedemann: And in the name of Nu Holdings and its management team, I'd like to thank you all for the participation in this conference call. Over the coming days, our team will be responding to the questions sent through our webcast and e-mail. We also take the opportunity to make our whole IR team available to any further questions you might have. And this concludes our earnings call. Have you all a good night.

Operator: The Nu Holdings conference call has now concluded. Thank you for attending today's presentation. You may now disconnect.