Q1'24 Earnings Call Script

Operator: Good evening, ladies and gentlemen. Welcome to Nu Holdings conference call to discuss the results for the **first quarter 2024**. 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, Guilherme Lago, our Chief Financial Officer, and Jag Duggal, our Chief Product Officer**.

Throughout this conference call, we will be presenting non-IFRS financial information, including adjusted net income. These are important financial measures for Nu, but are not financial measures as defined by IFRS and may not be comparable to similar measures from other companies. Reconciliations of our 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 our expectations. Please refer to the forward-looking statements disclosure in our earnings release.

Today our **Founder, Chairman and CEO, David Velez**, will discuss the main highlights of our first quarter 2024. 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 again for being with us today!

In Q1 2024, we kickstarted the year with many ambitious goals aimed at propelling our platform to the next level. As we shared with you last quarter, we are targeting four key priorities for 2024, all aligned with our mission to fight complexity and empower people: First, Establish Strong Momentum in Mexico, which means creating the basis for us to grow sustainably and profitably in the country. Second, ramp-up our Secured Lending initiatives in Brazil. Third, enhance our strategies to further advance in the High Income segment in Brazil. And fourth, launch products and services that leverage technologies such as real-time payments, open banking and AI that will turn the concept of our consumer technology-driven Money Platform into a reality for our customers. Beginning this quarter, we will present data points to demonstrate the progress of select priorities.

During Q1 2024, our business model, anchored in three fundamental principles – fast customer expansion, expanding revenue per customer, and efficient operating costs – showed its strength once again as it generated significant earnings.

The growth of our customer base, on a net add basis, continues to exceed our expectations, surpassing 99 million customers at the end of the quarter, expanding 67% from the 59 million recorded just two years ago. In fact, we’ve recently announced surpassing the milestone of 100 million customers, becoming the first digital banking platform outside of Asia to cross this remarkable number, and operating still in only three countries in Latin America.

The rate of customer net-adds in Brazil continues to be impressive, averaging 1.3 million customers per month, resulting in a total of 91.8 million customers at the end of the first quarter of 2024. In parallel, our growth in Mexico has reaccelerated, with a net add of almost 1.5 million new customers in the quarter, reaching a total of 6.6 million customers by the end of Q1. This growth underscores the success of our decision to increase deposit yields in Mexico, which has accelerated our flywheel and solidified NU's position as the unrivaled leader in the digital banking category in Mexico.

Finally, let me share some financial highlights with you. In the first quarter, our revenues surged to US$2.7 billion, accelerating sequentially to a 64% year-over-year increase. Our gross profit surpassed US$1.2 billion, growing 76% year-over-year, while our gross margin reached 43.2% in the quarter. Despite the expected contraction of our gross margins this quarter from a seasonal high in Q4, as flagged during our prior earnings call, our net income expanded again QoQ to US$379 million, while we achieved adjusted net income of US$443 million, reflecting expansions of 160% and 136% year-over-year, respectively. This showcases the strength of our business model, capable of combining strong top-line growth with consistently very solid levels of profitability.

This slide encapsulates our financial performance trends over the past two years, underscoring our momentum and consistent success in expanding our customer base while simultaneously accelerating both revenues and profitability.

The robust growth of our customer base driven by the growing cross-selling and upselling opportunities enabled by our highly engaged platform led to a more than threefold increase in quarterly revenues within just two years, on an FX-neutral basis. This translated into a 75% annual compounded growth rate for this period.

The third chart on this slide effectively illustrates our robust pricing and underwriting capabilities. Our quarterly gross profit, calculated as total revenues minus funding costs, transactional expenses, and credit loss allowances, increased by almost 4x in the same period.

Lastly, the combined impact of the aforementioned factors, coupled with the strong operating leverage of our platform and the maturation of our early products in Brazil, has led to a significant acceleration in net income growth. This upward trajectory is evident in the chart on the right, especially over the past two years. We anticipate this compounding effect to persist in the years ahead, driven by the combination of sustained growth and increased profitability within our platform.

Now, I'd like to highlight how our flywheel not only drives customer acquisition and data growth but also sustains strong momentum in our key financial metrics.

As we continue to expand in our three markets, leveraging the inherent operating advantage of our model, our holding company has successfully transformed its potential into profits. In the first quarter of the year, Nu Holdings achieved an adjusted net income of US$443 million, reflecting an adjusted annualized return on equity of 27%. We believe that this performance surpasses that of most peers in the region, despite maintaining a considerable excess capital of US$2.4 billion at the holding level and with two subsidiaries in Mexico and Colombia that are still operating with negative profitability. If one were to look at our operations in Brazil alone, our return on equity remained well above 40%.

As outlined at the outset of this call, we are committed to providing investors and the market in general with updates on our progress regarding our four key priorities for 2024. For this quarter, we have chosen to present KPIs specifically related to our first priority, Mexico.

In this slide we highlight the considerable momentum our strategy in Mexico has achieved, evidenced by the acceleration of our flywheel in the country. Notably, Mexico is already surpassing Brazil in terms of time to achieve different KPIs for the business. This slide was built analyzing quarterly figures in Mexico in Q1'24, marking 19 quarters since our launch in Mexico, and compares the status of our operations in Brazil at the same point in time.

After just one year since the launch of Cuenta Nu, Mexico has already surpassed Brazil in both absolute number of customers and checking account holders, as well as in relative terms when considering market share figures. Equally impressive is the progress of our credit card franchise in Mexico. Surpassing the milestone of 3 million credit card customers, we believe our user numbers have outpaced those of some of the top 3 incumbent banks in the country. Notably, Nu Mexico has already attained US$1.6 billion in credit card purchase volume, representing a 6.1% market share in the country, compared to a 4.3% share in Brazil during the same period. When looking into deposits, we have just crossed the mark of US$2.3 billion of retail deposits, more than double the amount at the end of 2023 and representing 1.2% share of total deposits in Mexico, compared to the 0.5% we had in Brazil at the same time.

The aforementioned KPIs drove US$149 million in total revenues for Mexico this quarter, which compared to US$99 million for Brazil in the same timeframe.

We are thrilled with our performance in the early months of 2024 and are well positioned to achieve the goals we have set for ourselves for the year. The developments we've shared suggest that we are building a model that could be successfully exported - a feat many previously deemed unachievable in consumer finance. While we acknowledge that there are still many hurdles to overcome, we remain incredibly excited about the early stages of this model's development. Having successfully balanced growth and profitability in Brazil, we now aspire to extend these traits beyond our initial borders.

Now I'd like to pass the floor to our CFO, Guilherme Lago, who will guide you through our financial numbers. Over to you, Lago.

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

As David mentioned, we delivered a strong first quarter in both operating and financial KPIs. Those results were achieved by focusing on our simple yet powerful value-generating strategy, which can be summarized by three guiding pillars:

First, a focus on growing our customer base in the three markets where we operate and rapidly converting our new customers into active customers.

Second, expanding average revenue per active customer, or ARPAC, through both cross-selling and up-selling.

And third, continuing to deliver high growth while maintaining one of the lowest operating costs in the industry.

Now, let's delve further into our first-quarter results to gain a deeper understanding of the progression of each one of these pillars.

I'll begin with the results of our customer acquisition.

During the first quarter of 2024, our customer base continued to increase at a solid pace. We accelerated customer growth quarter-over-quarter, welcoming 5.5 million new customers in Q1'24, for a total of 99.3 million customers at quarter end, a 26% increase year-over-year. In Brazil alone, our customer growth pace is at approximately 1.3 million customers per month, with the vast majority still coming from referrals. This not only translates into lower acquisition costs, but also ensures faster activation, showcasing the trust and satisfaction our customers have in our services. Our client base in both Mexico and Colombia also experienced strong positive growth. In Mexico, we reached 6.6 million customers this quarter, marking a remarkable 106% year-over-year growth and surpassing last quarter's net additions. Additionally, we now serve more than 900 thousand customers in Colombia.

Once we add customers, our goal is to activate and retain them. Our active customer base has increased by 27% year-over-year, followed by another sequential quarterly increase in the monthly activity rate, which now stands at 83.2%, up from 82.1% just one year ago. This marks the tenth consecutive increase in this metric. We believe that this is a testament to our proficiency in engaging customers effectively on our platform.

Turning our attention to revenue expansion, the first chart highlights that Nu has established primary banking relationships with around 59% of our active customer base. The drop of 2 percentage points in comparison to the fourth quarter of 2023 is mainly associated with last quarter's seasonality, considering increased transactionality during the month of December. Nevertheless, the two following charts show an increase in both the number of products per active customer and ARPAC.

As you can see in the second chart, the number of products per active customer grew from an average of 4 last quarter to 4.1 this quarter, illustrating our successful cross-selling strategy, achieved by introducing new products to our customers and establishing ourselves as their primary banking partner.

The last chart shows the combined effect of these two dynamics. By having significant customer engagement, as demonstrated in the first chart, together with our growing product cross-sell capabilities, as shown in the second chart, it produces increasingly positive results. Our monthly ARPAC increased to US$11.4 this quarter, in comparison to US$10.6 just one quarter ago. Our more mature cohorts are already generating a monthly ARPAC of US$27. This reported increase in ARPAC resulted in another quarter of solid revenue growth, as presented in the next slide.

Our monthly ARPAC grew sequentially and accelerated its year-over-year expansion rate to 30%, reaching US$11.4, up from US$8.6 just one year ago. As discussed in prior earnings calls, we maintain confidence in further growing ARPAC going forward towards its full potential.

In the second chart, we illustrate that our revenues hit a new record high this quarter, reaching US$2.7 billion, up 64% year-over-year. Just a year ago, our revenue was US$1.6 billion. This growth was driven by the increase in active clients combined with higher ARPAC.

Now, let's discuss our cards business in more detail. It is important to remember that for cards the purchase volumes are seasonal: higher in the fourth quarter and lower in the first quarter of every year. Historical seasonality analysis shows a drop of 6.9% on average in total purchase volume for the industry. However, the sequential reduction in Nu's purchase volume this quarter was only 3.7%, with a specially strong performance in credit cards, which contracted only 1.8% on a FX neutral basis, versus the historical industry seasonality drop of 5.9%. Compared to the first quarter of last year, our purchase volume was up 30% on an FX-neutral basis to US$31.1 billion, sustaining its strong growth path.

On the right side, the chart shows how purchase volumes expand as cohorts of customers develop and mature. Older cohorts continue to increase purchase volume. While an initial disparity does exist between newer and older cohorts, both tend to exhibit an upward trend in consumption over time. We expect that the compounding effect of adding millions of customers each month, along with the maturation of these new customers into historically-observed spending patterns, will strongly support the growth of future purchase volumes at Nubank.

Talking about purchase volume trends for the industry, we believe Nu ended the first quarter of 2024 with a market share of around 15%, including credit, debit and prepaid cards. As we continue to attract millions of new customers every quarter and their spending matures over time, our confidence in our ability to capture additional market share in the future only grows.

This quarter, our consumer finance portfolio, comprising credit cards and personal loans, posted another acceleration, growing 52% year-over-year and reaching US$19.6 billion. This growth was boosted by expansions in both product categories.

The credit card portfolio expanded sequentially, growing by 42% year-over-year to US$15.1 billion. This growth was driven by the combined effect of onboarding new customers and increasing the share of wallet of existing customers across all segments.

And, for yet another quarter, our personal loan portfolio was a highlight, increasing 88% year-over-year and reaching US$4.5 billion. Following the consistent trends observed in previous quarters, our personal loan cohorts have continued to exhibit expected credit behaviors, which have enabled us to scale origination.

Now, let's move to the breakdown of interest-earning loans within our credit card portfolio.

Interest-earning installment balances now account for 26% of our total credit card portfolio, up from 23% last quarter. This sequential growth was mainly underpinned by the successful expansion of our PIX and Boleto financing products. As we previously mentioned, we believe that this type of financing offers an attractive risk-adjusted rate of return, allowing us to further expand the monetization of our credit card business, while also unlocking substantial value as we fulfill an important customer need. This strategy is reinforced by the fact that our share of revolving receivables has not increased, representing 6% of our total receivables again this quarter.

Delving into our personal loan business. Our portfolio, composed of both unsecured and secured loans, remains aligned with our expectations for asset quality. Originations reached R$12.3 billion in the quarter, with secured personal loans growing according to plan and originations reaching R$1.7 billion, almost doubling versus the prior quarter. This represents 14% of the total originated, versus 10% in the previous quarter.

As discussed in our previous earnings call, we are pleased to note significant progress in broadening our lending portfolio. We have introduced payroll loans for federal public servants and retirees, FGTS anticipation, and investment-backed loans. Although still ramping up, these portfolios should contribute to the development of an even more resilient credit book in the years to come.

Following the same trend as last quarter, our credit yield was affected by the loan mix. As secured personal loans have lower interest rates, an increase in origination of these loans directly impact the average interest rate of our personal loan portfolio. This decrease in credit yield was only partially offset by a slight increase in unsecured lending yield as a result of continued risk expansions.

Now, let's review the progress achieved on the funding front. It is important to remember that fourth quarters are seasonally strong in deposit inflows, while first quarters are seasonally weak, representing a historical drop of approximately 4.6%. While we noted an expected decrease in deposits in Brazil, the total for the quarter of our deposit base increased and reached US$24.3 billion, representing a 53% year-over-year growth mainly driven by Mexico, where we are experiencing significant growth in Cuenta Nu.

By the end of the first quarter of 2024, we achieved over US$2 billion in deposits in Mexico, more than doubling when compared to last quarter. Similar to Brazil, this growth represents a very significant milestone towards our goal of developing one of the strongest local-currency retail deposit franchises in the region, bolstering our ability to support our consumer finance operations across all the geos where we operate.

Our cost of deposits, defined as the ratio between the interest income paid to customers and the interbank rate of the respective market, namely TIIE for Mexico and CDI for Brazil, was 84% of the interbank rate, very much in line with our expectations. The increase in cost of deposits this quarter is directly linked to the growth of our franchise in Mexico. We believe this consistently low cost of deposits highlights our progress in harnessing the value of our liability franchise.

Our loan-to-deposit ratio, or LDR, stood at 40%, versus 34% in the previous quarter, with deposit growth accelerating sequentially. We are very confident that there still is a lot of room for additional balance sheet optimization.

Net interest income, or NII, nearly doubled year-on-year, reaching another record high of US$1.6 billion. This was driven by the growth of our credit card and lending portfolios, which collectively have propelled the expansion of our NII and our net interest margin, or NIM, to new record highs. For the first quarter of 2024, we delivered a net interest margin of 19.5%, representing an increase of 1.2 percentage points compared to last quarter and of 4.5 percentage points in comparison to one year ago.

As we look ahead, irrespective of the direction of interest rates, we believe that the main lever for future NIMs should be the progression of the company's loan-to-deposit ratio, as our excess deposits are invested into public bonds, the remuneration of which is much lower than those of our credit products.

Let's now turn our attention to the last pillar of our overall strategy: maintaining a low cost-to-serve.

We maintain our conviction that our platform is one of the most cost-effective in catering to customers within our operating markets, with its low cost to serve standing as a significant competitive advantage. That is the reason we aim at keeping it at or below the $1 dollar level for the foreseeable future.

For another quarter, we were successful in achieving this goal, with a cost-to-serve per active customer standing at U$0.90. This figure currently remains unchanged on an FX neutral basis when compared to a year ago, while our ARPAC, as mentioned earlier, increased by 30%, demonstrating the strong operating leverage of our business model.

Our gross profit reached a new quarterly record high, at approximately US$1.2 billion, a 76% year-over-year increase. As we mentioned during our last earnings call, we expected annualized gross margin to normalize to levels of 2023, as our investments in Mexico and Colombia are offset by the positive trends expected for Brazil. The sequential drop in gross profit margin in the first quarter was driven by two main factors: (i) the seasonal drop in card purchase volume, which impacted interchange revenue compared to Q4, and (ii) the increase in growth, which drove credit loss allowances built in the quarter. Yet, our gross profit margin reached 43.2% this quarter, an increase of 3 percentage points in comparison to one year ago.

One of the key elements of our strategy is achieving operating leverage. Our efficiency ratio stood at 32.1% during the first quarter of 2024, an improvement of almost 4 percentage points in relation to the last quarter of 2023 and almost 7 percentage points better than one year ago.

Please recall that during the fourth quarter of 2023 our efficiency ratio was impacted by higher marketing expenses, mainly due to the phasing of these costs into the end of the year, together with higher cloud expenses driven by seasonal increases in data usage in the quarter. As we mentioned at that time, we believed that our efficiency ratio would come to normalize during the following quarters, as demonstrated during this first quarter of 2024. We continue to believe that this positions Nu as one of the most efficient financial services companies in the world.

We expect to benefit from the full potential of our platform's operating leverage as we continue to grow our customer base, upsell and cross sell products, launch new features and eventually achieve profitability in the new geos of Mexico and Colombia, which are still in their investment phases.

Let's now review the sustainable advantages across all four cost pillars:

- Number one, our Cost to Acquire was stable at US$7, an amount we continue to believe to be one of the lowest among consumer fintechs and banks globally.
- Number two, our Costs to Serve remained, as expected, at a low level - below US$1 -, which we estimate to be approximately 85% lower than those of incumbent banks. Once again, we believe this level of cost to serve makes Nu one of the most efficient financial services companies in the world.
- Number 3, on Cost of Risk, again we have effectively managed credit risk, outperforming competitors on an apples-to-apples basis in terms of delinquency rates.
- And, finally, number four, on the Cost of Funding, while significantly increasing deposit volumes, we were able to maintain our cost of funding at a competitive level of 84% of the blended interbank rates of Brazil and Mexico, thus closing the negative gap against incumbent banks and widening the positive gap over consumer fintechs.

And finally, moving to net income, we delivered another quarter of profitability, with a net income of US$379 million, increasing by 160% compared to the previous year. These strong and positive results serve as an evidence of the effectiveness of our strategy and business model. Additionally, adjusted net income reached US$443 million in the quarter, an 136% increase when compared to one year ago.

While we are encouraged by the first quarter results, it is again important to emphasize our commitment to managing our business for long-term value creation. This may require undertaking material short-term investments aimed at optimizing our long-term opportunities.

Now, I would like to hand the call over to Youssef, our President and Chief Operating Officer, who will walk you through key highlights of our asset quality.

Youssef Lahrech: Thank you, Lago and good evening everyone. I will now take you through some of the highlights of asset quality and credit portfolio health for the first quarter of 2024.

Let's start with NPL trends.

First, let me remind you that seasonally the first quarter represents a high point for early stage delinquencies. Specifically, 15-90 NPLs rise on average by 80 basis points between Q4 and Q1 based on historical data, in line with the rest of the market. That being said, our leading indicator, NPL 15-90, increased to 5.0% in the first quarter of 2024, broadly in line with expectations.

Second, our 90+ NPL ratio increased to 6.3%, also in line with expectations. This is a result of the normal flow through the delinquency buckets, considering that, as we discussed in the past, 90+ is a stock rather than flow metric so over time you get a "stacking" dynamic. Since we have not sold any delinquent loans, our NPL rates require no adjustment.

As we have mentioned in previous calls, we continue to see meaningful opportunities to expand our credit portfolio aiming for attractive returns and robust resilience. Part of that growth has been coming from expansions down the credit spectrum, which will continue to result in intentionally higher delinquency rates, and will continue to be more than offset by additional revenues, leading to increasing risk-adjusted margins over time.

To illustrate the impact of the credit expansion dynamic on our consumer finance portfolio, we are sharing this analysis of NPLs as a ratio of interest earning balances only, as opposed to total balances in the previous slide.

As you can appreciate, Nu's NPLs as a ratio of interest earning balances have been trending significantly down on both 15-90 and 90+.

In other words, as we've expanded our credit portfolio, we have increased interest earning balances at a faster rate than NPLs, thus enhancing returns and resilience.

Our provisions continued to grow primarily driven by the growth in our portfolio following the same dynamic as in prior quarters. This is again due to the fact that we frontload provisions when we originate loans, in accordance with IFRS9's expected loss methodology. Our credit loss allowance expenses grew to US$831 million this quarter, directly linked to the increased volumes of origination we generated in the quarter.

As a reminder, last quarter we incurred a lower credit loss allowance expense. That suppression was driven by higher credit card and personal loan recoveries, as a result of the Desenrola government-sponsored debt renegotiation program in Brazil, combined with other collections initiatives.

Risk-Adjusted Net Interest Margin reached 9.5% in the quarter, up 3.2 percentage points from a year ago, although contracting 70 basis points quarter-on-quarter. The Risk-adjusted NIM was directly impacted by the increase of provisions, linked to the growth of our portfolio particularly in Brazil, and by the growth of our deposits in Mexico. Excluding these two effects, risk-adjusted NIM would have been virtually unchanged versus the past quarter.

With that, we're now ready to address your questions. Thank you very much.

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 very much, Operator. And our first question comes from the line of Tito Labarta at Goldman Sachs.

Tito Labarta, Goldman Sachs: My question is on the increase in provisions. I understand part of it *Desenrola* impacted 4Q, so expecting some part of an increase. But if you can maybe do we need a little bit more the sharp increase in the quarter, is it a function of the loan mix? Would I be thinking interest-bearing credit card portfolio increasing more personal loans increased a lot? And did Mexico have any impact on the provisioning of how we should think about it going forward as well?

Youssef Lahrech: Tito, thanks for your question. So in terms of the provision dynamics and the provision build we saw in the quarter, you're definitely correct to point out that last quarter was a little bit abnormally low because of the *Desenrola* we had indicated about $60 to $70 million additional recoveries given the quarter. So you have to think about last quarter with that in mind. This quarter, we were back to what we describe as more normal levels that reflect the dynamics of the portfolio. So we've experienced a lot of growth in both lending secured and unsecured as well as credit card.

Some of that growth comes from credit expansions, and we've typically seen that play out per expectations, if not actually slightly better than our expectations in terms of the returns. So we're very happy with the returns we're getting from those expansions, and you can see that reflected in the risk-adjusted NIM growing 320 basis points year-on-year.

With respect to Mexico, in fact, in Mexico, what we're seeing in the last couple of quarters is improvement in NPLs, partly because of the underwriting improvements we've made at our models, more data, there's more experience in the market and then partly because of a better mix of customers we've been getting over the last couple of quarters after repricing the Cuenta yield up. So Mexico has been probably a positive driver rather than on that front.

Tito Labarta: Great. That's helpful. And my follow-up, I guess, on the risk-adjusted NIM, you mentioned, would have been a stable-ish sort of quarter-over-quarter adjusting for *Desenrola*. Is that sort of maybe what we should expect for the full year? Or do you think there can be some risk-adjusted NIM expansion throughout the year? I know you don't give guidance, but just how you think that should evolve to some extent would be helpful?

Youssef Lahrech: Yes, sure. So Tito, you're correct. Like the risk adjusted NIM going forward will reflect the kind of dynamics of the credit portfolio going forward. If like we have over the last couple of quarters continue to see opportunities to expand, that would come with enhanced margins, right? But we, as you pointed out, don't give guidance on that nor try to forecast that with any degree of precision.

Jörg Friedemann: And our next question comes from the line of Thiago Batista from UBS.

Thiago Batista, UBS: I have a question about the SME business of Nu. We saw that Nu achieved more than 4 million clients in the SME business, something close to 2.4 active clients in this segment. When you look at Central Bank data, Nu is charging about 9%, 10% per month in these short-term capital loans. This is probably a very small portfolio for Nu right now. But can you share with us Nu strategy in this segment? And how big this can be in the future?

David Velez: Thank you for the question. So you're right. We actually haven't really talked publicly that much about our growth on the SME side, but it is a significant opportunity ahead of us. And partly, this opportunity has come to fruition as we started to cross-selling SME account to our large consumer base. So just to give you one data point, out of the 93 million or so Brazilian customers that we have, we think we have in our base, something like 8 million or 9 million small businesses, and that's a significant percentage of something like 15 million of total businesses existing in Brazil.

So already in our base, we have a path towards pretty significant operations with more businesses. We, by the way, see that they tend to be very badly served also, especially if they are owned by 1 shareholder or 2 shareholders. So as we call it here in Brazil, MEI. So this is a big opportunity that we've been developing as it has grown consistently. Today, our value proposition is fairly basic. We began with an account for the small business, then we launched a debit card.

We have already started growing for a few quarters, the credit card for the small business. This is a product that we're very excited about because we get to use a lot of the credit and the rating data that we have on the consumer side for the small business side. There actually is a lot of synergies in using a lot of the data for both sides of the consumer and allows us to see a consumer on a more complete basis. And we also see that when we start banking somebody both on the consumer side as well as the small business, we see a pretty significant increase in ARPAC, we see a higher increase in engagement, we see higher activation.

So it not only adds additional ARPAC, it brings a lot of synergies to the platform as a whole. In terms of working capital loans, we are just beginning to test that product. It's timing our base is something that we are ramping up slowly. And we're testing a number of different secured and unsecured products for the small business, but we haven't really rolled out anything big yet.

Guilherme Lago: The only thing, Thiago, that I would add to that is that similarly to the profit pool that we see in consumers, the profit pool that we estimate to exist in SME is still 65% to 70% driven by credit. And within credit, we started with credit cards for SMEs. The credit card business is performing extremely well. We are super encouraged by the early results, and then we are gradually expanding into working capital.

What we expect, however, in SMEs is that differently, for example, from the public payroll on market, is not necessarily a market in which our growth will hinge on someone else's losing market share. We think there's a tremendous opportunity to increase the size of the pie within the credit penetration in the Brazilian SMEs space, which still has very low penetration and we think we can expand the market quite strongly.

Jörg Friedemann: And our next question comes from the line of Geoffrey Elliott from Autonomous.

Geoffrey Elliott, Autonomous: Share-based compensation was quite a bit higher this quarter than it has been. Can you just remind us of the dynamics that is the share price a driver? Is it about grants? What's going on? What drives that? And how should we think about a normalized level?

Guilherme Lago: Geoff, this is Lago. Thanks for the question. Yes, we had an increase in share-based compensation. And I think it is largely the result of three compounding effects. I think number one is their general headcount growth in the company. Number two is the result of no more aggressive performance recognition than we did in the first quarter of 2024 compared to the first quarter of 2023. And number three, the share appreciation, which negatively impacts our social tax contributions, primarily in Brazil, which can account for up to 36% of the grant.

So as you will see our explanatory notes of the financial statements, you will note the increase in share-based compensation, but also the corresponding increase in share taxes and social contribution taxes, which are accounted together with share-based compensation. Now one of the things, Geoff, that we take very seriously is the net and gross dilution that we apply to our shareholders. And if you take a look at our gross and net burn rates, we have been operating below 100 basis points. In fact, over the past 2 years, we have been operating below 60 basis points.

And we believe the number one that we are in the bottom quartile of the industry in terms of companies that apply the lowest levels of dilution to our shareholders. And number two, as we increase in size and value, we do expect operating leverage to continue to play its part here. So we expect that this number will actually go down over time.

Geoffrey Elliott: And in terms of what to think about as a normalized figure there. I guess we would want to take out the share price appreciation, it's probably not going to be up 40% every quarter. So what can you point us to, to get to a more normal figure?

Guilherme Lago: So we don't provide guidance on that. But if you take a look at exploratory note number 10 of our financial statements, you will note how much of that increase came from share price appreciation, they are more or less. So you can exclude the number from the total share-based compensation. We do, however, pay much closer attention, Geoff, to our net and gross burn rates. And we think on that note, one should easily expect that this will be meaningfully below 100 basis points per year.

Jörg Friedemann: Our next question comes from the line of Gustavo Schroden from Bradesco BBI.

Gustavo Schroden, Bradesco BBI: I'd like to explore the NIM a little bit. Indeed, that was a very impressive NIM in the quarter. But I'd like to understand the trends and the moving parts here? Because of one side, we have an increase in the cost of funding from 80% to 84%. On the other hand, if we analyze specifically the personal loans average interest rates declined from 6.4% to 6.2%. So I am assuming here that the difference here or the positive is coming from the other products such as the credit card installments revolving and also some trading gains or other products.

So my question is, could you give us more color on these other products if you are raising interest rates in these other products to offset this, let's say, kind of a pressure if we compare the cost of funding versus the personal loans? I'm asking this because I can see that the secured loans are gaining share in your portfolio. So any color on that would be great.

Guilherme Lago: Gustavo, this is Lago. Thanks so much for your question. I think you are referring to Slide #17 in our earnings presentation. And yes, we have experienced what we believe to be a relatively strong expansion in net interest margin. Over the past 4 quarters, it went from about 15% to 19.5%. And it is largely the result of two opposing forces. I think on one side, you do have the optimization of the balance sheet in Brazil. As you see the expansion of our loan-to-deposit ratio going from 30% to 35%, then to 40%, you should generally expect to see net interest margins going up.

And even though you've mentioned that secured personal loans have lower yield levels than unsecured and also lower interest levels than credit cards, they do have materially higher yields than the treasury bonds in which we deploy most of our excess cash. So as we shift part of our treasury and treasuries to interest-earning assets of consumer finance, you should expect to see net interest margins expanding in Brazil.

The offsetting force to which I alluded before is our operations in Mexico and Colombia, in which we are paying as of today deposit rates that are slightly higher than the interbank deposit rates in those countries, which bring the net interest margins down on one side. So I think going forward, those two offsetting forces will play out, we do expect to see net interest margin to continue to expand on average in the coming quarters.

Gustavo Schroden: That's very clear, Lago. Just a follow-up here. What is the level of loan-to-deposit ratio we should use in our model? According to your answer, that should be a good proxy or a good variable to forecast and try to get the best NIM in the future. So if you could share with us what is the good level of loan-to-deposit ratio would be great as well.

Guilherme Lago: Yes. So I mean, a good reference more than a guidance is the loan-to-deposit ratio of the large retail in common banks in Latin America is between 100% to 110%. I don't expect that we will get to a loan-to-deposit ratio anywhere close to those levels, but it will be materially higher than the 40% that we presented in the last quarter.

Jörg Friedemann: And our next question comes from the line of Jorge Kuri of Morgan Stanley.

Jorge Kuri, Morgan Stanley: Congrats on the numbers. I wanted to see if you could maybe double click on your loan-to-customer growth during the quarter, it was really impressive, 21% quarter-on-quarter on the total balance. You also disclosed your originations going from BRL 1 billion to BRL 1.7 billion. How much of that is attributed to the early success of your payroll loans? How much of that is FGTS continuing to develop the personal loans business?

Anything that you can help us understand what is the look and feel of this very big uptick in personal loans, in loan to customers, sorry, would be very helpful. And again, I think the market is very excited about the prospects for payroll loans. So to what extent that is included here? And what can you tell us about this whole growth?

Guilherme Lago: Jorge, Thanks for the question. This is Lago. I think we are very pleased with the evolution of the total portfolio growth that we have presented. I would point you to Slide 36 of our earnings presentation, in which we provide more details on the breakdown between personal loans and credit card growth. And one of the things that you will note is that irrespective of the seasonality, we have been posting fairly robust growth in our credit card book. In fact, by the end of the first quarter of 2024, we estimate that our market share in cards in general has reached about 15%, 1-5, which would place Nubank as the second credit card issuer in the country, and we continue to acquire market share quarter after quarter.

Now notwithstanding the robust growth in credit cards, personal loans are actually outpacing credit cards, and that has happened over the past 5 quarters in a row. And you will note that in the first quarter of 2024, personal loans grew by 25% on an FX-neutral basis. Credit cards grew by 8%. Now to your question, within personal loans, I would then refer you to Slide 15 in each, you can see the evolution of the originations of personal loans.

You will see that over the past 4 quarters, it increased from BRL 6 billion per quarter to more than BRL 12 billion. So we almost doubled the originations. You see the still the primary driver of this absolute growth is with unsecured personal loans. The eligibility of which continues to expand across our customer base. If you take a look at the unsecured personal loan pie in Brazil, which accounts for the second or third largest profit pools in the country, our customers alone as of the end of the fourth quarter, accounted for about 43% of the entire loan book in Brazil.

And we still have no less than 8% market share there. So we have plenty of room to grow. Now at the beginning of the second half of 2023, we expanded in secured personal loans, which encapsulates consignado or public payroll loans, FGTS and investment-backed loans. Public payroll loans and FGTS account for about 90% of our total originations, with investment-backed loans accounting for 10%. We expect that the originations of secured personal loans will continue to outpace the originations of unsecured personal loans as we increase the collateral agreements that we have as of today.

So today, we offer public payroll loans primarily to INSS and SIAPE, which are now federal public servants and pensioners and retirees, which account broadly for 50% of the target market of secured personal loan in Brazil. We will be increasing our scope to add armed forces in many states and municipalities, and we hope to reach about 75% of the target market by the end of 2024.

David Velez: And just to finalize that, Jorge, I think one perhaps easy way to understand really the significant opportunity we continue to have ahead is we have more or less 60% of the Brazilian auto population as a customer. That 60% owns something like 40% to 50% of the entire credit pool in the country. And if you just look on an average basis across the lines, we probably have something like 10% market share.

So we could double, triple, quadruple the size of our existing credit portfolio. And the bottleneck to growth is on the unsecured side, our own willingness to grow, our own willingness to take risks. And thus, in certain areas, we go very slowly, and we test our way into acceleration. And on the secured side, our bottleneck is signing up a bunch of contracts with a number of different entities. We have been signing up all those contracts. Whenever we go to the entities and we say we are going to be offering products for your associates that are 30% to 40% lower interest than everybody else, that is a very good value proposition for them.

And so we haven't seen a lot of real resistance in signing up the contracts with us. There is some interconnection of systems. We have to integrate with a number of older systems, so that takes some time, and that's going to be taking some time over to next year. But so far, we feel very good about our ability to grow in the pool of addressable secured portfolios in the country.

Jorge Kuri: If I may ask for a follow-up. I'm looking at your Slide 19, where you have the last 5 quarters of gross profit margin. Given the particularities of what's happening with your asset mix and the deposit mix with Mexico, would it still be fair to assume a seasonal behavior like we see here in 2023, where sequentially every quarter was up in terms of gross profit margin in 2023. Would that be applicable for this year? Or the dynamics are going to be different because of these two items that I mentioned?

Guilherme Lago: Jorge, I think it will largely depend on the velocity with which we grow deposits in both Mexico and Colombia, by and large. If it was only for Brazil, one would expect that gross profit margins would continue to expand sequentially throughout the quarters, especially because the first quarter is usually a low seasonal quarter for us. But the expansion of gross profit margins in Brazil is partially or fully offset by headwinds coming from Mexico and Colombia. So those two things will be playing out. It depends on the speed with which they play that we will see this resulting in our gross profit margin. I still believe that throughout 2024, one would expect to see gross profit margins for the full year very much in line with the gross profit margin that we had for the third quarter of 2023, so around 42%, 43%.

Jörg Friedemann: And our next question comes from the line of Eduardo Rosman from BTG Pactual.

Eduardo Rosman, BTG Pactual: I have a question here. I want to delve deeper into your strategy of deposits in Mexico. You're having massive success, but that's naturally coming at a cost, right? So when we look to incumbents, we see that they pay very little as a percentage of the reference rate. So what's the goal there in terms of remuneration, short and medium term. Goal is to reduce the remuneration or eventually pressure competition to move higher? And also, if you can also give an update as well on your recent partnership for cash in, cash out and the challenge naturally to grow deposits in the low income there?

David Velez: Hi Eduardo here’s David. So listen, Mexico is a really attractive market for a number of different reasons. One of the interesting reasons that has become much more visible to us recently is that differently from Brazil, the deposits as a product is the largest source of profit for the incumbent banks. So when you look at the average yield that banks are paying consumers, it's something like 3% to 4% a year when you have an interest rate, a sovereign interest rate in the 12%, 13% plus. So this is a bit of abnormality in a regular banking market because banks are effectively making significant profits without really taking any risk.

When you look at Brazil, you see a market where that is driven very much by taking credit risk, which generally is what you would expect in competitive markets. That's not the case in Mexico. And when you look at the level of interest rates in products, they are still very high. So in a product when we look at our original economics, even at offering a very high yield, we're still making positive unit economics given the structure of the market.

Now given the fact of how these profits in the system, we think this is a really interesting disruption opportunity for the entire Mexican system because if most of your profits are coming from deposits, frankly, the barrier to entry is not that high. Yes, probably in the past, you needed branches. Now you don't. And yes, brand is important because consumers won't live their life savings in a brand that they don't trust. But the reality is if you have a good brand and you have a very good product, you will take those deposits away.

And I think the past 6 to 9 months and the pace of growth that we're showing with this yield is showing very significant growth above our expectations and much higher than our fintechs that are paying even higher yields than we are. So we're not only necessarily just competing by higher yields. You are already able to see that we built a very solid and trusted brand in Mexico. and this has been a big source of deposits.

Now all being said, I think in the long term, we will also rationalize the cost that we are expecting. We tend to make this decision based on value proposition. Our goal is to have the very best deposit value proposition in the country. That is a function of yield and features. Initially, our features were not that big, which meant we had to rely a lot on yield, and that's what we're doing right now. But very soon, our features have been growing. And by the end of the year, it will be a very different product.

And you mentioned cash in, cash out, that was a significant bottleneck that we had a few months ago. We are solving that as we speak. So as we increase the level of features, as we increase the value proposition, as we strengthen the brand, we expect to be able to decrease yield while maintaining the best value proposition. We think that incumbent banks are going to have to increase the yield that they're offering consumers if they want to keep a lot of these consumers.

Ultimately, in this new world, there's just not that many barriers of entry and you just cannot keep your consumers trapped. They will go to whoever gives them the best option. And so we think we are on path to building that product in that category that way.

Guilherme Lago: Rosman, if I may add one thing. What we have been seeing in Mexico, as we have seen in Brazil in the past, is that as we attract deposits from customers in the country, we are also benefiting from very relevant second order impacts that allows us to increase our brand awareness. It allows us to increase credit card applications. So credit card applications have more than doubled in Mexico since we repriced our deposit products. It allows us to acquire data to do better credit underwriting and customer segmentation. It gives us positive credit selection.

So there is a tremendous amount of second order impact that the deposit flows are bringing to our flywheel that are not necessarily captured only in the absolute nominal amounts of deposits that we see coming in.

Jörg Friedemann: And our next question comes from Yuri Fernandes at JPMorgan.

Yuri Fernandes, JPMorgan: I have just one on renegotiated loans. I see you don't have the slide anymore in your presentation. So if you may just provide some color on how the numbers are tracking in the first quarter, how does this compare to the 9.6 that you had in the 4Q? So just trying to get some color on renegotiated loan strength.

Guilherme Lago: Yuri, this is Lago. Thanks for the question. So renegotiation loans still account for about 10% of our portfolio. It has not changed materially since we last presented this. We do expect that we will be disclosing our renegotiation rates on an annual basis whenever we disclose our fourth quarter results. In addition to that, you can see some levels of renegotiations in the filings that we present to the local regulators, especially in Brazil that we do on a 6-month basis.

Going forward, however, as we know, change and reposition the mix of our credit products in Brazil primarily, both between personal loans and credit cards and within personal loans between secured and unsecured, those should directly affect the rates of negotiations. But there has been no material change since we last presented this in the last quarter.

Yuri Fernandes, JPMorgan: Super clear, Lago. And just for a better understanding on new NPL formation and asset quality trends, you mentioned renegotiations are not there. Is there any other factor that is helping your new NPL formation? Or is this really a mostly stable quarter for new NPL formation for the company?

Guilherme Lago: So I think there's no material non recurring item that would be distorted in our NPL and Stage 3 formation. So I think they are pretty much BAU.

Jörg Friedemann: And our next question comes from the line of Pedro Leduc of Itaú.

Pedro Leduc, Itaú BBA: I'm looking at NII post cost of risk and it rose mid-single digits Q-on-Q, if I'm not wrong, that's I understand your provisions were up a lot of the NII growth. I'm really curious about this compound as a net basis of mid-single-digit growth. It's historically below what you've been growing at? And I don't see that much of a difference in your loan book growth.

So some hypothesis, maybe the loan book that we see at the end of the quarter doesn't reflect the average of what it was last quarter. So it didn't generate that much NII or that incurred losses are different from the expected loss that you had to catch up. Really curious on how you piece together this NII post cost of risk being basically flat and how we should think about it going forward?

Youssef Lahrech: Pedro, this is Youssef. Thanks for the question. So I think you're referring to risk-adjusted NIM on Page 26, where you can see the evolution over time. And again, as a reminder, if you compare quarter-on-quarter, you have to bear in mind that Q4 2023 was impacted by a suppression of the CLA because of higher recoveries than normal and that was driven by *Desenrola* and some of the collections programs we put in place in Brazil to take advantage of that as well.

So in reality, the 10.2% in Q4 was inflated. It would have been closer to what we've experienced this quarter at 9.5%. So and then really, if you pick up a longer-term horizon view year-on-year, we've seen a pretty sizable expansion of the risk-adjusted NIM by about 320 basis points or so. If you look at the cost of risk along the same basis, it went from 8.7% to 10%, so about 130 basis points. So you see quite a bit more expansion in the margin, 2.5x expansion in the margin compared to the expansion in cost of risk.

Guilherme Lago: Pedro, the only thing I would add to what Youssef mentioned, if I may, is that if you take a look at the originations and the mix of new credits that we have added in the first quarter of 2024, I would draw your attention to Page #15. You will see that unsecured personal loans in the fourth quarter of 2023 grew by about BRL 400 million, and it grew by about BRL 1.6 billion from the fourth quarter of 2023 to the first quarter of 2024.

So there was a material growth in credit books in unsecured personal loans, which actually draw more CLA than credit cards. So the mix of growth also plays a role on how risk-adjusted net interest margins should be seen. But I'm not sure if we have fully addressed your question, Pedro.

Pedro Leduc: Almost a little more confused because I thought 4Q you had a net adding and provisions. I thought it was zero by comparing it sequentially. And I do understand your reasoning there on the mix evolution. But as I did expect it to come a little bit more with NII expecting originated more towards the end of the quarter.

Guilherme Lago: No. I mean, we can certainly follow up with you in more details on the timing of the originations throughout the quarter. But I don't think there was any one-off originations that happened, let's say, in March that was materially higher than what happened in January and February. So relatively levels of originations.

Jörg Friedemann: And our next question comes from the line of Mario Pierry from Bank of America.

Mario Pierry, BofA: I wanted to stay on asset quality. When we look at your NPLs, they are at the highest level in the series, right? The NPL over 90 days is 6.3%. When I look at your loan Stage 3 formation at 3.7% also historical high. You talked about on your release that the increase in expected losses or you had an increase in the expected losses because you're increasing the risk profile of the newer cohorts.

So what we're seeing in Nubank is very different from what we're seeing at the other banks in the system in Brazil, where the banks really became very cautious in lending and we're seeing our NPLs improving and asset quality improving. So I wanted to pick your brain. How can you be so confident, right, in continuing to take on more risk? Why do you think that the consumer in Brazil is in good shape? You already showed that the interest portion of the credit card is at 26%, well above the industry.

And so the ability of the consumer to continue to take on more credit and more risk, clearly, right, you are pricing that you're increasing your return on your loans, but eventually gets to a level that is too high. So just trying to pick your brain here. It seems like you're moving down into a riskier segment of the population, while everyone else is doing the opposite. So that's my question.

Youssef Lahrech: Thanks so much for the question. So let me maybe address or remind us a little bit about how we think about credit underwriting, if you'll allow me, and then I'll address specifically the latest trends. So when we underwrite credit, our objective is not to minimize NPLs rather, our objective is to maximize the NPV of that credit brand to maximize the NPV of that customer relationship subject to resilience constraints, right? So specifically, we want to ensure that every credit grant that we make is NPV positive even in the event of a downturn. So we typically don't take a position with respect to timing, the point of the cycle at which we're at, we're fairly agnostic to that.

We want every origination we make to perform in good and bad times. So when we see opportunities to expand credit and taking a little bit more risk, especially with products and features that customers love and create a lot of value for them, like we see with some of the financing products we've introduced like fixed financing on the credit card or unsecured loans. We're not shy about taking that risk, but we always do it with very rigorous testing, sometimes testing from us and several quarters before we roll out and very rigorous monitoring of the risk and return that we get as a result.

And we've been very happy with the results of those expansions, as I mentioned earlier, be they in personal loans, secured and unsecured or in credit cards as you can see in the expansion of our interesting earning portfolio that Lago talked about. One way perhaps to think about the dynamic in our credit book is looking at the data we showed on Page 25 of the earnings presentation, which shows you

NPLs as a ratio of interest-earning balances. You see there that we've grown interest-earning portfolio balances faster than we've grown NPLs. And thus, that's a simple way to kind of validate that this is accretive to return in NPV.

So again, this is not a result of us kind of taking a particular position on where we are at the cycle. It's rather us testing over months and quarters and years. New products, new features observing the returns and then deciding to roll out when we see really good and resilient returns on that.

David Velez: One point I would add, just to close on Youssef's explanation, is that the majority of the additional financing products that we've been launching that we'll be growing are very short-term duration in nature. We're talking about 30, 60 days type of loans. So this tends to be a really high information-rich type of product that allows us to react very quickly to any signs that we might see things that are not playing out as we expect. Again, we're making an underwriting decision based on our view of an NPV model, based on a lot of testing, based on a lot of foundational testing that we're doing. And the ability to do this type of short-duration products just allows us to increase the financing portfolio that we have while maintaining significant control on the risk of the portfolio.

Mario Pierry: Okay. Let me ask a follow-up here. When I look at your credit cards outstanding in Brazil, it went up by about 200,000 from 37.5 million to 37.7 million. Even though your active clients in Brazil grew by 3.6 million. So this is the slowest pace in the increase of the number of cards, right? The average you're growing is about 1.8 million credit cards in Brazil in 2023 per quarter. Now you did 200,000. What does this mean? Does it mean like you are being more conservative or you reached a percentage of your client base that they don't have the capacity to take on a new credit card?

Guilherme Lago: Mario, one thing that I would point out, and I certainly let my other colleagues chime in on is that, in Brazil, as we start to approach 55%, 60%, 65% of the adult population. It's inevitable that the marginal growth will not necessarily come from adding more customers or more credit cards to the existing customer base. We still have a lot to go there, but it's only natural that at some point in time, the growth in the number of customers of the number of cards will diminish.

But what we still have plenty of room ahead of us is what you can see on Page 34 of the earnings presentation. And you can see the evolution of the purchase volume and the evolution of ARPAC as the customers mature. So even at the customers that we have on board 24 months ago, they are tripling their purchase volume as they mature their usage with us. So what we will naturally see in Brazil is that a natural kind of a flattening of the curve of number of customers and credit card customers, but the continuous evolution of the maturation of purchase volumes in ARPAC. And then conversely, Mexico and

Colombia are in the very early days of the expansion of a number of customers and number of cards. So they are in a different point of the escrow cycle there.

Jörg Friedemann: And our next question comes from the line of Brian Flores of Citi.

Brian Flores, Citi: I wanted to make a follow-up on Mexico. We talked on the liability side, and I think that is ramping up very well. Wanted to ask you on the asset side, right? Because we have seen, as Lago mentioned, some room for optimization with the low LDR so far. So I wanted to pick your brain on, what key differences have you found in client behavior, infrastructure? And also, how is your strategy at this rate? And if you think the speed is going according to the plan? Or do you think it's maybe a bit lower or a bit ahead?

David Velez: Thanks for the question. So we've said a lot in the past that we tend to go into a new market underwriting very conservative, a very conservative approach. And the growth curve that you will see from us in a lot of the unsecured products really now is periods of acceleration, periods of pause, even periods of tactical detractions, accelerations, pauses. You saw that if you look at our growth rate in unsecured lending personal loans maybe 12 to 8 months ago, we had a bit of a pause and we accelerated again. I think Mexico is following a very similar path. We launched slowly, we accelerated. We did a lot of foundational testing.

That's, by the way, the reason why our delinquency in the country was much higher. We were just testing a lot. This really means giving a number of different lines and credit cards to consumers where we don't really have any data. A lot of this is credit losses. But in reality, it's CapEx. It's effectively R&D dollars into building our own models. And where you've seen Mexico, maybe over the past 6 months, was after a period of acceleration with deaccelerated growth, we went into a period of slowing down a bit our growth, partly was to continue working on new generations of models that ingested new data sources, partly was also because we wanted to see how funding was going to come on. As you, obviously, know, we cannot just accelerate too much if we don't have funding resolved. So getting NuConta right in Mexico for us was the number one strategic imperative because if we don't have that part of the balance sheet, we don't really have a business. So with the accelerated a bit to continue iterating on products, we launched NuConta. NuConta has been very successful. We've also -- if you look at some of the numbers that we disclosed to regulatory reports or delinquency in Mexico has been coming down a lot very fast. We're operating with much lower delinquency levels.

And this is now driving a low acceleration, again, into credit cards in Mexico and new accounts. You see that also the number of new customers in Mexico has accelerated over the last quarter. So I'll give you all this context to effectively say we're now on the path of accelerating again on Mexico. We have the funding. We're very comfortable with some of the data sources. Our ability to do underwriting based on our own methodology, on our own consumer behavior, and we'll continue to operate a bit like that. As we see opportunities, we accelerate, we see things that worry us a bit, we pause a bit. And that tends to be the path that we tend to take in these new markets.

Guilherme Lago: The only thing, Brian, I would add is that if you take a look at the first quarter results of our operations in Mexico, the one that we filed with the local regulators, you will note that we're already growing our book in Mexico at about 7%, 8% on a quarter-over-quarter basis. We expect this growth rate, as David mentioned, will pick up in the coming quarters.

Brian Flores: Perfect. And if I may follow up just very quickly, do you have any updates on the banking license? Do you think this is critical to really ramp up growth as you mentioned?

David Velez: Yes, sure. So it is not critical to ramp up growth. We can continue ramping growth with the SOFIPO license that we have. We are getting the deposits that we need, and that's the critical part. I think the banking license is really critical for the long term of Mexico. There are certain bottlenecks in the license that eventually will become real issues for our products. One specific example is deposit insurance, SOFIPO only gives us deposit insurance of something like $18,000 to $19,000 and a bank license gives deposit insurance all the way to $180,000.

So for Mexican High Income consumers, it will be critical to have a banking license. That's not our core target today. A banking license will also expand the possibilities of cash in, cash out with certain banking correspondents. And so thinking ahead of where the business will be in 5 years from now, we definitely need the banking license. And that's why we already last year entered with the process of the banking license. The process is going well. I think the regulators are doing all of their work around due diligence.

We've been very active working the regulator answering all the questions that they've received. And so far, it's going according to expectations. It's not necessarily an easy process. It's not a fast process, but we're taking the product very seriously. And so far, we've heard very goodwill from the regulator in enabling new players to get banking licenses to bring much more competition into the banking space in Mexico.

Jörg Friedemann: And our final question comes from Neha Agarwala from HSBC.

Neha Agarwala, HSBC: I wanted to zoom in on Mario's previous question in terms of asset quality. Originations, especially in the personal loans, were extremely strong this quarter, but early delinquencies have inched up. I understand part of that is seasonality. But given the rate outlook and the softening of economic activity, would you be more concerned or more cautious in the coming quarters and try to step back a bit in terms of originations? Or should we see continued these levels of originations for personal loans or an acceleration?

Youssef Lahrech: Neha, this is Youssef. Thanks so much for the question. So you are right in pointing out that the NPL movement in the quarter from Q4 to Q1, particularly NPL 15 to 90, was largely the result of seasonality or that we've experienced a 90 bps increase typically. The increase in Q4 to Q1 is 80 bps, so more or less within the seasonal expectations and perhaps to be super precise a little bit coming from credit expansion as we mentioned multiple times in both personal loans and secured personal loans and the credit card earning interest portfolio as well.

And as I mentioned before, we tend to be fairly agnostic to the point in the cycle at which we're at because when we originate credit, when we underwrite credit, we always make sure that credit performs and is NPV positive under good times and bad times, right? So we stress the risk expectations in our NPV model, which ensures that our cohorts on aggregate can withstand a doubling of risk and still be NPV positive. So we're very comfortable with the level of resilience with which we operate that way.

With that all said, as I've mentioned in past quarters and this quarter again, our expectation is that there are going to continue to be really good opportunities for us to expand our credit portfolio across the board, right? We see updates to expand in secured lending as Lago and David have discussed. We see opportunities in unsecured personal loans to increase eligibility of customers and also in credit cards with the continued growth of IEPs and the continued rollout of new products and features on the financing front.

So our expectation is definitely that there will continue to be opportunities to extend. And typically, as we've done in the past in Brazil and Mexico and other markets, when we see results that are a little bit different than what we expect on the downside, we will take the appropriate action to slow down if that's what the situation calls for.

Jörg Friedemann: We are now concluding today's call. On behalf of Nu Holdings and our Investor Relations team, I want to thank you very much for your time and participation in our earnings call today.

We are very excited with our developments as we continue strengthening our position in the markets we operate. Over the coming days, we will be following up with the questions received by our platform and with those that were not able to ask questions tonight. So please do not hesitate to reach out to our team if you have any further questions.

Thank you, and have a good night.

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