Q1'23 Earnings Call Script

Operator

Good afternoon, ladies and gentlemen. Welcome to Nu Holdings conference call to discuss the results for the first 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, 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 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 first quarter 2023 results and provide an overview of our Brazilian 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!

Once again, in a quarter marked by general concerns about economic activity and asset quality in the markets we operate, the soundness of effectively all our financial indicators remained very strong, attesting to the resilience of our business model and the execution of our team. As I will show in the next few slides, we continue to deliver a rare combination of strong growth and increasing profitability through the ups and downs of our markets.

In the first quarter our numbers continued to demonstrate the compounded effect of our platform's high growth, combined with the increasing profitability provided by our business model. Revenues surpassed US$1.6 billion, expanding 87% year-over-year. Our gross profit reached US$651million, a 124% year-over-year increase, and our gross margin again surpassed the 40% threshold this quarter, reaching the highest level since 2021. This continued revenue growth with gross margin expansion enabled a significant increase in net income, reaching US$141.8 mm, or a 145% quarter-over-quarter growth rate vs last quarter's CSA-adjusted net income. Adjusted net income reached US$182.4 million, an increase of 60% quarter-over-quarter.

Meanwhile, we also continued to expand our customer base at a strong clip, ending the quarter with 79.1 million clients. Net-adds were very strong in Brazil where we welcomed 4.4 million customers during the quarter. Our activity levels remain robust, at 82%, even as we add more and more customers, demonstrating the intense engagement capacity of our platform.

This slide offers a high-level overview of our recent financial performance trends, highlighting our ability to increase revenue while expanding profits. Over the past two years, Nu was able to double the number of customers from 37 million in early 2021 to more than 79 million at the end of the first quarter of 2023, and already surpassed 80 million customers by April.

The strong growth of our customer base, associated with the rising cross-sell and upsell implied by the high engagement of our platform resulted in our quarterly revenues multiplying by almost 7x in only two years, 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 more than 5x in the period, with gross profit margins expanding accordingly even though credit delinquency has increased in the markets in which we operate over the past twelve months.

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, resulted in a significant acceleration of net income growth, particularly over the past three quarters, as you can appreciate in the chart on the right. This

compounded effect should continue to be observed over the coming periods, providing a valuable combination of growth with increasing profitability in our platform.

However, I want to dig a bit deeper into some core questions that we get from investors around growth potential and eventual steady-state profitability of the platform. In Brazil, where we have been operating for nine years, our clients already account for a remarkable 46% of the total adult population of the country. It's staggering, and at the same time gratifying, to think that almost one in two Brazilians that own a smartphone is a Nubank customer. In Mexico and Colombia, where we have been for three years or less, our share of the total population is significantly lower, representing a tremendous opportunity for growth as we expand our product offering and create lasting relationships with our clients. But so far, the experience we are having in Mexico and in Colombia is more positive than what we saw in Brazil in the first few years. With three years of operations in Brazil we had 1.2 million customers, representing a penetration of less than 1% of the adult population of the country at that time, lower than what we now have in Mexico and Colombia. So far Mexico and Colombia are beating Brazil at effectively all metrics, from customer growth to early monetization, and plans for these countries are ahead of expectations.

While our customer penetration in Brazil is significant, when we delve into the market share we actually own in each profit pool, it is clear that we still have substantial room to expand our presence. The first important insight from the chart on this slide is that 2/3 of all the profits of financial services in our three markets come from credit-related products. This fact confirms that it is virtually impossible to build a large financial services business in the region without having credit underwriting as a core capability. It is also one of the reasons we decided to start Nu with a credit-first approach in 2013 as starting with payments and then pivoting to credit generally carries significant execution risk. Over the past four years we have started to establish new toeholds in every additional credit segment.

Today our most mature product is credit cards, where we have only 11% market share in purchase volume across our three geos. We have resumed growth in our unsecured personal lending product in Brazil and expect it to be an important driver of revenue and earnings growth. Last quarter, we also launched, still in beta, our first secured lending product (what in Brazil is known as "Consignado"). We are very excited about the feedback we are receiving from early customers and expect to see meaningful acceleration in this segment over the next 4-8 quarters.

In addition to building our core capability in credit in Brazil, we also launched innovative products in Investments, Insurance and Marketplace. Since we already have one of the largest fully-digital consumer platforms in Brazil, we are able to bring new customers to these verticals at virtually zero additional acquisition cost and serve them at an extremely efficient cost to serve. This not only allows us to gain market share, but also increases the size of the addressable market as we bring in consumers that have been traditionally underserved by incumbents. We are pursuing a similar roadmap in Mexico and in Colombia over the next few years supported by internally-developed technology platforms, providing us both speed and quality.

Beyond the significant growth runway we have ahead, the clear trend of the last nine quarters demonstrates the significant operating leverage of the platform, and its potential to generate profits. Being

the lowest-cost manufacturer in an industry is a very important strategic position, and we believe we are reaching that point in Brazil.

The charts on this slide illustrate this fact for our business in Brazil, our most mature market. On the left, we show the efficiency ratio for our Brazilian unit over time. In the short time we have been operating in the country, at least compared to incumbents, we have been able to deliver best-in-class efficiency ratios, with our cost-to-income ratio running at mid-thirty percent level. Meanwhile, the chart on the right provides evidence of the operating leverage of our platform. Our monthly ARPAC, or average revenue per active customer, expanded by 2.5x between Q1'21 and Q1'23, whereas our monthly Cost to Serve remained virtually unchanged. Impressive enough, but this is only the start of the process. The monthly ARPAC of our mature cohorts is already upwards of US$20, more than twice our current overall average, and the monthly ARPAC for incumbents is above $40. As we grow our share in the profit pools we are targeting and close the gap in ARPAC to our peers, all while maintaining a monthly cost-to-serve below US$1 per customer, we believe our efficiency ratio will set new records and our profitability will continue to increase.

And talking about returns, I'd like to highlight the evolution of the key financial metrics we presented last quarter for both our holding company and our Brazilian operations. The momentum continued into the first quarter as you can see by the numbers on this slide.

As our Brazilian operations mature, positive results continue to compound and profitability is accelerating. Our adjusted net income in Brazil reached an impressive US$200 million in the first quarter, representing an adjusted ROE of 43%. We achieved these results while maintaining a regulatory capital ratio of 18.7%, a cushion of over 80% on top of the minimum required of 10.5%.

As our three geos scale and we enjoy the benefits of operating leverage that is inherent to our model, our holding company is starting to convert its potential into profits. Nu Holdings' adjusted net income of US$182.4 million in the first quarter implies an adjusted ROE of 14%. While our current levels of profitability are already on par with many traditional incumbent banks in the Latin American region, it's important to note that our excess cash of over US$2 billion means that we are extremely well capitalized. Also important to remember that we are showing this level of profitability even while continuing to invest significantly in future products and while growing revenues by 87% YoY, a revenue growth rate that few financial institutions at scale are able to show.

As seen, we are very excited with the momentum of the business, and now would like to pass it over to my partner and CFO Guilherme Lago to dig in deeper into the numbers. Go ahead, Lago.

Guilherme Lago: Thanks David. Good evening everyone.

As David mentioned, we delivered another quarter of strong operating and financial KPIs. We did so by leveraging the same simple, powerful, value generating strategy that we have now employed for a few years. This strategy can be summarized by three guiding principles:

- First, continuing to grow our customer base in the markets in which we operate and quickly converting new customers into active ones;

- Second, expanding average revenue per active customer, or ARPAC, through both cross-selling and up-selling; and
- Third, delivering growth while maintaining one of the lowest operating costs in the industry.

Much like in prior periods, our first quarter results showcase how we continue to execute against each one of these pillars. Let's dive deeper.

During the first quarter, our customer base increased at a solid pace. We added 4.5 million customers for a total of 79.1 million - a 33% increase year-over-year. In Brazil, our pace for monthly net-adds continued at almost 1.5 million customers, the vast majority of which still come from referrals, which means lower acquisition cost and faster activation. Our client base in Mexico and Colombia also evolved positively and will likely accelerate further once we are able to have our checking account up and running in both countries. This has already happened in Mexico, where we have just crossed the level of 500 thousand checking accounts opened in less than a week after the official launch of Cuenta Nu.

Once we add customers, our goal is to activate and have them engage with our platform and love us fanatically. On this basis, the first quarter was also a success: our monthly activity rate increased to 82.1%, up from 78.0% a year-ago, the ninth consecutive quarterly increase. We are seeing positive and increasing momentum in activity in all of our three markets.

The second pillar in our strategy is revenue expansion.

The first chart is our primary banking relationship chart. It represents the percentage of our active customers who transfer to us, every month, more than 50% of their post-tax income. Nearly 60% of our active customers are already primary banking relationship customers. And the pace at which our active customers become our primary banking relationship customers has happened faster and faster over time, driven by two types of factors. First, external factors, such as Covid, PIX and the overall growing adoption of digital banking. Second, internal factors, such as the launching of new high-quality products and features.

The second chart is our product cross-sell chart. As we have launched new products, we have successfully cross-sold them to our customers and earned the right to have their primarily banking relationships.

Now, the third chart is our ARPAC chart. And it represents the compounding effect of our expanding customer engagement shown in the first chart with our growing product cross-sell shown in the second chart. In the last quarter, our monthly ARPAC reached a record-high of $8.6. Yet, the monthly ARPACs of our more mature cohorts are already above $20.0 and the monthly ARPACs of the customers who have bought our three core products – banking account, credit card and personal loan – are above $30.0. We have a long runway ahead of us.

On this slide, the chart on the left shows that our monthly ARPAC continues to grow sequentially, and was up 30% year-over-year on an FX-neutral basis. Our ARPAC growth, together with the expansion of our customer base, drove an 87% increase in revenues year-over-year to US$1.6 billion, also a record-high.

This slide provides some more detail on our cards business. For cards, purchase volumes are seasonal: higher in the fourth quarter and lower in the first quarter of every year. Compared to the first quarter of last year, our purchase volume was up 48% on an FX-neutral basis to US$23.3 billion, sustaining its strong growth path.

The chart on the right shows how purchase volumes expand as cohorts of customers develop and mature. Older cohorts continue to purchase in higher volumes, spending 3 to 4 times more per month than recent cohorts. As we mentioned before, on average, a customer's credit card expenditure triples when they have been with us for more than 24 months. We expect the compounding effect of adding millions of customers each month along with the maturation of these new customers into historically-observed spending patterns to provide ample support for the growth in future purchase volumes.

Looking into reported purchase volume trends for the industry, Nu ended last quarter with a market share of around 13.6%, adding both credit and prepaid cards, an increase of 40bp QoQ.

This quarter, our consumer finance portfolio, composed of credit card and personal loans, reached US$12.8 billion, a 54% expansion year-over-year.

Despite negative seasonality in purchase volumes, total credit cards receivables expanded sequentially, and increased 64% year-over-year, driven by client growth and the natural evolution of our low-and-grow methodology. More importantly, our personal loan portfolio expanded significantly in the quarter. As you might remember, through most of 2022 we were cautious with originations in personal loans, a posture resulting from the increased risk we perceived in the product during the period. Starting late last year, as Youssef will explain later, our portfolio exceeded our expectations in terms of performance, which gave us confidence to take bolder steps with originations. As a result, our personal loan book increased 18% quarter over quarter to US$2.3 billion.

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

We continue to pursue a strategy of increasing the share of our credit card loans that earn interest. This quarter, our interest-earning installments balances once again gained share, representing a record-high 16% of our credit card loan book. We prefer interest-earning installments, where we see attractive risk-adjusted rates of return that allow us to further monetize our credit card business, over revolving receivables, where we see a less favorable risk-return profile and higher adverse selection. We have intentionally not expanded our share of revolving receivables, which continued at 7% of total credit card receivables for the third consecutive quarter. Because of this, Nu widened the gap versus the market, where revolving receivables accounted for 18% of credit card receivables as of the end of the first quarter.

The performance of our personal loans cohorts improved over the last several months, giving us the conviction necessary to increase loan originations. As our portfolio continues to show strong resilience and performance, we progressively increase our risk appetite, deploying capital profitably and consistently. Our launch of payroll lending would add to this strategy, reinforcing our opportunities for growth in origination.

We are confident in our ability to drive responsible growth in lending. This belief is supported by our best-in-class credit underwriting platform, our strong capital base and our ample liquidity.

Moving to funding. Supported by the growth in our customers' base, total deposits expanded 34% year-over-year. It is important to note that fourth quarters are seasonally strong for deposit inflows, while first quarters are seasonally weak. Our loan to deposit ratio achieved 32% this quarter, showing that Nu optimized the use of those deposits quarter after quarter.

In the fourth quarter of 2022, our cost of funding dropped to an all-time low of 78% of the interbank deposit rate, driven by three factors: the full impact of the recently launched Money Boxes, the change in the remuneration of NuAccounts, and the seasonally higher levels of deposits at the end of the year. As we had anticipated previously, our cost of funding should oscillate upwards to approximately 80% of CDI over the initial three quarters of the year. In this context, the level of 81% of CDI observed this quarter is in line with our expectations, and also shows that we are starting to unlock the value of the strong liability franchise we have been able to build.

With the recent launch of Cuenta Nu in Mexico, which in less than a week after its official launch already surpassed 500k accounts opened, we are offering a more compelling value proposition for customers in the country and should be able to onboard more individuals month after month, helping to further strengthen our deposit franchise in the country. We expect the same to happen soon in Colombia.

The combination of the continued growth of our credit portfolio with the new normal in our funding cost have contributed to the expansions of our net interest income, or NII, and net interest margin, or NIM, to record-high levels. Our NII reached US$815.3 million this quarter, growing an impressive 138% year-over-year. Our NIM increased by 2.2 percentage points quarter-over-quarter and 7.2 percentage points year-over-year to 15.7%.

Let's now turn our attention to the last pillar of our overall strategy: maintaining a low cost-to-serve. We continue to believe our platform is one of the most cost-effective in serving customers in the markets in which we operate. In the first quarter of 2023, our cost to serve per active customer was US$0.8, largely flat year-over-year, while, over the same period, our ARPAC increased 30%. This illustrates the strong operating leverage of our business model.

Looking ahead, as we said in past quarters, we expect our cost-to-serve to remain at or below the US$1 level as scale gives us significant operating leverage and bargaining power with our suppliers.

We recorded US$651 million in gross profit in the first quarter. This was up 124% year-over-year, representing an important acceleration compared to the growth posted last quarter. Following a similar trend, our gross profit margin reached 40.2% in the first quarter, almost 7 percentage points higher year-over-year, consolidating the acceleration in the pace of expansion that started in the third quarter of 2022. We achieved this result even with a higher amount of provisions this quarter, as a result of the expansion of the origination of our lending portfolio, as we upfront provisions, and a slightly higher cost of funding in comparison to last quarter, due to previously mentioned seasonal patterns.

We continue to see operating leverage as a defining feature of our strategy. It is best illustrated by our efficiency ratio, which in the first quarter improved for the fifth consecutive time to reach another all-time low at 39.0%, or 33.5% excluding share-based compensation. This level of efficiency would already rank Nu Holdings as one of the most efficient players in Latin America.

That said, we see this as only the beginning, as 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 inflect results in our new geos of Mexico and Colombia, which still run at deficits.

In fact, looking into Brazil only, we would already be running at levels of cost-to-income in the mid-thirties, which would likely place us as the most efficient among the big players in the country, although still in the early stages of our ramp-up.

Finally, moving to net income, we posted yet another quarter of improved bottom-line performance. Our adjusted net income and net income amounted to US$182.4 million and US$141.8 million, respectively. To us, these encouraging results are validating our strategy and business model.

While we are encouraged by the results in the first quarter, it is important to reinforce that we manage our business with a view towards long-term value creation. This can require additional investments in the short-term aiming to optimize our long-term opportunities.

To review our performance in the first quarter from a different viewpoint, I'd like to highlight the sustainable advantages we are maintaining across all four cost pillars:

- On Cost to Acquire: We added more than 4 million customers in the quarter with the same low CAC as in prior periods.
- On Costs to Serve: Despite persistent inflation in the countries in which we operate, as well as two businesses that have yet to reach scale, our CTS remains below US$1.
- On Cost of Risk: We successfully managed the risk in our credit portfolio amid a very challenging backdrop and continued to outperform competitors when comparing apples to apples - Youssef will provide more details shortly; and
- Cost of Funding: We began to unlock the potential of our deposit franchise, closing the negative gap we had against incumbent banks and widening the positive gap against fintechs.

We are very excited about what we have been able to achieve 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.
Let me take you through some of the key indicators of asset quality and credit portfolio health for the first quarter of 2023.

Let's start with NPL trends. Seasonally, the first quarter represents a high point for early stage delinquencies. Specifically, 15-90 NPLs rise on average by 80 basis points going from Q4 to Q1 based on our historical data, and in line with the rest of the market.

In Q1 2023, our 15-90 NPL ratio came in at 4.4%, increasing by 70 basis points from the fourth quarter of last year, which is 10 basis points lower than our historical trend. This slightly lower-than-normal-seasonal increase was mainly driven by the improvement in our personal loan portfolio, a result of the actions we took last year.

Our 90+ NPL ratio increased from 5.2% to 5.5%, as a result of the normal flow through the delinquency buckets (as we discussed in the past, 90+ is a stock rather than flow metric so you get this sort of "stacking" dynamic over time). And since we have not sold any delinquent loans, we do not get the "purging effect" of asset sales which would artificially lower NPLs.

With respect to loan renegotiations, they remained at around 8% of the book in the first quarter, with half of those coming from customers who are current and not past-due at the time of renegotiation. This is a result of us making it very easy for our customers to have active control of their finances. Many of them take advantage of that feature and go directly to the Nu app to edit their loan and payment schedule and make them more convenient and better synchronized. This is counted and reported as a renegotiation even though it's not necessarily representative of a credit stress situation.

The six graphs on this slide show the time-series of NPL for credit card loans by income band, where the purple line represents Nu and the gray line represents the industry. Much like in prior quarters, we continue to outperform the industry on a like-for-like basis. For the lower income bands, our comparative advantage continues to be even more pronounced.

Provisions have continued to grow, primarily driven by the growth in our portfolio, following the same dynamic as in prior quarters. We front load provisions when we originate loans, based on the expected losses for the life of the credit in accordance with IFRS9's expected loss methodology. The increase in provisions in the first quarter, therefore, is directly related to the increased volumes of origination we recorded in the quarter.

Despite the higher provision volumes, our risk adjusted NIM reached another record-high of 6.6%, expanding by 120 bp quarter-over-quarter. Compared to a year ago, the improvement is even more pronounced, with risk-adjusted NIM up almost 4x compared to the levels of the first quarter of 2022.

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 Velez: Thanks, Youssef. As we wrap up, I wanted to leave you with some thoughts about the future. This week we are turning ten years old, and we couldn't be more excited about what's ahead for Nu. In ten years, we have been able to amass a combination of skills and capabilities that position us at a very differentiated place:

- As a result of working extremely hard on our mission of Fighting Complexity to Empower People, we have built one of the most loved and trusted brands in Brazil, and increasingly in Mexico and Colombia;
- We have reached significant scale in Brazil, allowing us to reach a level of operating efficiency that we can pass onto our customers via better and better products at lower prices, enabling an accelerating flywheel;
- We have gathered significant data on top of a sophisticated data infrastructure, which is increasingly a key piece of our product design and Artificial Intelligence strategy;
- We have built unique capabilities in credit underwriting and financial services, helping us to develop a profit engine that we will use to reinvest in other services, verticals and geographies; and finally
- We believe we have assembled one of the best technology and product teams in the world, unique for a Latin American company.

These ingredients are important pieces to what we decide to now go build over the next ten years. And as we plan for the long run, we think there is an opportunity to see ourselves more as a consumer platform that enables the optimization of money on behalf of its users. We have named this new category a Money Platform.

The Money Platform is a technology platform that has the optimization of money on behalf of its users at its core, the same way that a "Social Platform" has social interactions such as text or photos or videos, as its core. The Money Platform's mission is to help consumers and small businesses fully optimize the creation and usage of their wealth across every single financial decision, from investing, to lending, to day-to-day spending.

Not only do most individuals and small businesses make poor financial decisions, whether by investing in suboptimal products, overspending on goods, or overborrowing, but also they often pay excessive or unnecessary interest charges and fees to intermediaries. These costs can be detrimental to the economic welfare of an entire society. Imagine the amount of additional wealth that could be created for every member of society, if every money-related decision - including purchasing the right goods at the lowest cost - was always optimized! This is a vision we have been pursuing for quite some time now, but we are very excited about how the advances in Generative AI will help us to accelerate reaching this goal, and we intend to make investments methodically to seize this opportunity.

Our strategy to get there is to continue building a comprehensive digital financial platform that provides the best financial products fully digital across the "Five Financial Seasons": spending, saving, investing, protecting and borrowing. In parallel, we use the brand, scale, data, profits and talent we have to go beyond financial services and enable our customers to purchase products and services from our marketplace partners.

As we think about the next ten years, we truly feel that it is early days for Nu, and we hope to keep you posted as this vision progresses.

We would like to take your questions now. 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: Thanks operator. And the first question comes from the line of Jorge Kuri at Morgan Stanley.

Jorge Kuri: Congrats on the fantastic numbers and congrats also on your 10-year anniversary. I wanted to ask about payroll loans, evidently a big product that you are doing either on a beta testing or already launched. And I wanted to see if you can share with us some of the results that you're seeing so far, what type of cross-selling are you getting? Is it mostly INSS? Is it mostly government workers? What type of rates and maturities are you seeing your customers take? What is this doing to your ARPAC? If you can share what the ARPAC would be for a payroll loan? What does it do for your return on equity? So that we understand as that business ramps up, how does it change your KPIs? Thank you.

Guilherme Lago: Jorge, thank you so much for your question. This is Lago. Look, I'll try to share some of my thoughts, and then I'll pass it to Jag to complement with the recent experience that we have had. But entering payroll loans to us is a super important venture, not only from a financial perspective, but also from a strategic perspective. I think, first, you have to step back and realize that payroll loan is the single largest asset class that you have in consumer finance in Brazil. It accounts for about BRL 560 billion of loans in the country and one of the largest profit pools that you have in the region. And our customers, if we take the social security numbers of our customers and if we take them to the Brazilian Central Bank database, they already account for about 31% of the entire payroll loans in Brazil. So that means that we don't need to fish outside of our fish ball to tap into 1/3 of this very, very large market. And we intend to do so collateral agreement after collateral agreement. We started with CRP, which is the payroll loans offer to federal public servants. But we have also announced that we will follow this with INSS, which is payroll loans for pension years and retirees, and we intend to expand this progressively as we learn more about the product. What are the unit economics of the product for us, Jorge? And how do we expect this to impact our overall economics as a company? So the APR, the interest rates of payroll loans are smaller than those of credit cards and unsecured personal loans. They range anywhere between 1.5% and 2% per month. But conversely, payroll loans offer one of the lowest, if not the lowest, delinquency levels that we have in the industry and also a very low regulatory capital requirement. It's about 50% of the regulatory capital requirements that you would need for unsecured personal loans. The consequence of this compounding effect and to the fact that we will not use loan brokers, we will do direct-to-consumer originations, and therefore, we will remove about 15% to 18% in origination cost is a product that we expect to provide us with ROEs at or higher than 30%. Therefore, we expect 2 things to happen in our overall company economics: One, the acceleration of the personal loan books; secondly, a progressive reduction in delinquencies overall. But Jag, I will let you comment on our recent experience and how excited our customers are with this product.

Jag Duggal: Thank you, Lago. Thank you for the question, Jorge. I'll just compliment a couple of things that Lago said as he laid out the big picture. From a product perspective, it is still early days. We launched the product and are still rolling it out in April. But we followed a pretty classic Nubank formula of launching a mobile product that is very simple to sign up for direct-to-consumer with a very transparent set of pricing and terms and conditions. What we are hearing from the early customers who have started to engage with us on Consignado, particularly is genuine delight with the simplicity of the sign-up flow and the transparency of the product, how easy it is to understand. And we are in the midst of testing a fairly wide range, wide spectrum of pricing, which we will optimize over time. But what we found is a set of customers who are extremely reactive to the pricing and the fact that we can leverage our cost advantage, as Lago alluded to, to give customers a fair price. So that combination of a fair price, along with a simple mobile product, has given us a response that has exceeded our expectations in the early stages of rollout. We are being very careful and stepwise in that rollout process to get the product, the pricing and the experience right, but we couldn't be more encouraged in the first month or so that we've put the product out there. As Lago mentioned, consignado is just the first step of our payroll lending road map through this year and beyond. INSS and other groups of public employees and public sector employees are on our road map, and we're working systematically through those agreements.

Jörg Friedemann: And our next question comes from the line of Tito Labarta from Goldman Sachs.

Tito Labarta: Congratulations on the very strong results. My question is on the personal loans, right? We saw a very strong acceleration in the origination this quarter, despite asset quality still deteriorating. I know there's some seasonality there. But just how do you think about this going forward? I mean I think initial signs, you feel comfortable with the asset quality outlook. But is there room to accelerate this product more this year just to think about how that will continue to grow throughout the year and as potentially asset quality may begin to improve?

Youssef Lahrech: Tito, thanks for the question. This is Youssef. So yes, with respect to the unsecured personal loan book, as you recall, towards the middle of last year, we decelerated a bit origination. There was a lot more uncertainty at that time around what sort of normalization post-COVID we would see. We didn't have a reference point unlike in credit cards for what pre-COVID looked like, we were pretty cautious. In the time period since then, we've made several improvements in terms of pricing, in terms of models, in terms of the resilience of our originations. And we just accumulated a lot more data, more data on more customers across more products. And so what you see is the combined result of all of those things, whereby we've observed performance of our most recent cohorts to be quite strong and in fact, actually a bit better than what we expected. And so that's given us a lot more confidence to reaccelerate and grow quite a bit in this segment. As an aside, the movement on delinquency rates is completely explained by seasonality. In fact, it's a little bit better than seasonality. So normalized for seasonal patterns, I would say that exceeded our expectations on NPLs alone. And so going forward, all of this gives us quite a bit of confidence to continue to accelerate the growth in that unsecured lending category.

Tito Labarta: Okay. Great. That's helpful. If I can ask a follow-up then. So as you continue to accelerate growth both here, I mean, credit cards also had strong growth and you're getting into the payroll lending. You delivered about 11% ROE in the quarter. As you accelerate your loan growth and as David mentioned,

right, to really be profitable, you have to be in lending. Is it fair to assume that, that profitability just should kind of continue to go up as you grow that loan book, assuming that you manage the asset quality as you've been doing so far?

Guilherme Lago: Tito, this is Lago. Thanks for your question. We do expect that the profitability levels that we have showcased in the last 2 quarters in Brazil and overall to be at sustainable levels. We don't provide necessarily guidance on where they will be precisely. But if you take a look at our Brazilian operations, we are far from being an optimal structure in terms of costs and in terms of leverage. There is still way more room for improvement there, and we continue to invest for the future. We continue to invest in cost and expenses related to the development of new products and features. But if you take a look at the 3 geos in which we operate, we do expect to have relatively similar levels of returns by leveraging our very advantageous cost structure.

David Velez: Tito, David here, just adding one more point here. I mean, I think, to be frank, it should not really come as a surprise as it's very consistent with the view we've discussed with investors now for over a decade around the efficiency of the business model, the moment that we are able to serve 80 million customers with about 8,000 people from one centralized location at our cost to serve that it's about 20x more efficient than traditional banks without the banking branches, with the benefits of using a lot of data to underwrite and to cross-sell at effectively no additional customer acquisition cost. All of those factors ultimately just drive into this return of equity that we are finally able to show in more mature operations like Brazil. And this is still in an operation where we're growing 100% year-over-year, and we're still investing a lot for growth in Brazil for 2024, 2025, 2026, investing in a lot of new products and verticals that are still generating serial revenues for a while. So we think there is a lot of opportunity ahead to continue driving that return on equity at those levels and potentially up. But it's still very, I would say, consistent with the way I think we've all along said that the model itself carries a pretty significant cost advantage.

Jörg Friedemann: And our next question comes from the line of Daniel Vaz from Credit Suisse.

Daniel Vaz: Congratulations on the strong results, it is indeed very impressive to see the high profitability in Brazil after reaching a more material level, right? So in Mexico and Colombia, right, we are still in the early stages. And it would be very helpful if you could share with us some insights on the 2022 cohorts on ARPAC and asset quality evolution and maybe compared to Brazil and compared the potential to Brazil? And also, if I may, I was curious about Jag's quote in an interview that you should not listen to clients 100%, but to ask the right questions, right, so that determines their pains. So I wanted to know in Mexico versus Brazil, how this has been playing out considering the particularities among each country?

Youssef Lahrech: Daniel, this is Youssef. So with respect to kind of benchmarking Colombia and Mexico to Brazil, I would break it into 3 parts. So first of all, just comparing credit card products across the 3 markets. One of the main differences you see is, both in Mexico and Colombia, consumers tend to use credit cards as not just a means of payment but also a borrowing vehicle. So you tend to get in the higher rates of revolve, which in turn caused both ARPAC to be higher and NPLs to be higher. But on a return basis, they produce comparable levels of ROA and ROE. The second point that I would make is when we look at our experience so far in the 3 years since we launched Mexico and 1.5 years or so since we launched Colombia, if anything, we're seeing the Brazil playbook to work very well in both countries and

we're actually able to capitalize on all the work that's been done in Brazil, the platforms we've developed and actually execute on a faster basis in both Mexico and Colombia. So we see faster time to market, faster launch of new products and new features and even higher levels of NPS and penetration compared to Brazil at the same point in time. And the third thing I'll point out is moving beyond credit card is, as Lago alluded to in his earlier comments, the introduction of the basic account of the Cuenta, which we just started in Mexico, is going to be a game changer because it's going to allow us to now say yes to offer a product and to say yes to everyone who applies to Nu. It's going to allow us to gather a lot more data to underwrite better on those customers and it allows us to build a solid local deposit base to be able to grow credit card and other lending products going forward.

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

Geoffrey Elliott: There's been some discussion about changes to the way the credit card market works in Brazil, potentially capping the revolving rates, which I know can be very, very high. What's your take on what comes out of that, if anything?

Guilherme Lago: Geoff, this is Lago. Thanks for your question. Look, the discussions about reviewing the economics of credit cards in Brazil have been ongoing for many years involving both the government and many industry participants. And those discussions are not simple because the topic is indeed highly complex. And then it's highly complex in my view for 2 reasons. Number one, because the credit card industry is a very big one in Brazil. It accounts for about 40% of the personal consumption expenditures and over 20% of the GDP of the country. In 2022, the purchase volume of credit cards amounted to over BRL 2 trillion. So any disruption to this industry can have major consequences to the consumption in the country. That's number one. Number two, credit card also happens in Brazil to be a very complex industry. As you know, only 25% of the receivables bear in interest versus about 70% in most other countries. And this creates a number of no idiosyncrasies and cross subsidies. And not to mention that the industry also has many, many stakeholders such as merchants, acquirers, networks, issuers and consumers. So a fairly complex puzzle to be cracked. Now we have had the opportunity to engage in very constructive and technical dialogue with the Brazilian government and other industry participants and believe that the Brazilian government has fully comprehended and assimilated the complexities of the credit card industry and the multiple economic levers that exist such as interest rates, interchange rates and interest fee, then you cannot change one thing without also changing the others. So even though it's probably too premature at this point in time to draw any conclusions or expectations as to when and how those discussions will unfold, we are very confident that they will unfold in a matter there is no very balanced and will not put at risk the gains in financial inclusion and competition that have been acquired by the country over the past decade.

Geoffrey Elliott: And the 40% or I think this quarter 43% ROE in Brazil, clearly, a very impressive number. But do you think that could become problematic in those discussions? Sometimes politicians look at returns and think, wow, this is getting really high, maybe I should do something about that.

Guilherme Lago: I think two comments I would say. So I think first and foremost, the returns that we have here are the result of a very superior cost advantage that we have. I wouldn't say that the returns that we are posting in our operations in Brazil are market level returns, much less they are reflective of our stand-

alone credit card operations. That's my first comment. The second one is the discussions that we have had with the government have proven to be super technical and constructive. So I would be surprised if anyone would anchor on 1 or 2 quarters of returns to contaminate the dialogue.

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

Pedro Leduc: A little bit on the credit card loan book, you're still growing very fast. If you could help us understand a bit on how much is higher limits or usage per clients and sort of new clients? And perhaps a second question tied to that. An update on anything this quarter that we're already seeing and your effort to move up the higher income clients lay out perhaps some actions that you're taking there? Really to understand a little bit your credit card loan book growth.

Youssef Lahrech: Pedro, this is Youssef. I would say on the credit card, we're continuing to see, as you pointed out, really strong growth. We're really pleased with the performance of the portfolio overall and also when we look at sort of cohort by cohort at the latest cohorts, both on a return on NPV and NPL basis, they have come at or even slightly better than our expectations. So we remain pleased with the performance of that book and really encouraged by the prospects of growth going forward. And one thing I would point out is even if credit cards are our most mature and oldest product, and we have now about 40% or so of all adults in Brazil as customers, our share of purchase volume credit cards is only 13%. We just crossed 13% in the quarter. And so we see a lot of runway to continue to gain share above and beyond continuing to add customers. And I'll let Jag comment on our efforts on the upmarket segment.

Jag Duggal: Thank you, Youssef. Pedro, thank you for the question. Let me first provide a little bit of context on generally how we approach the building of products. So we always look at any product, any new product we're building or any customer segment we're trying to address with a fairly standard approach in formula. First, we want to build a strong relationship with our customers. Second, we want to work to gain principality and a lead position. And third, we monetize. Those things don't necessarily happen in sequence. They can happen in parallel, but that's generally the stack rank of our approach and how we think about it. When it comes to the high income segment focus, particularly on Brazil, we already have, as customers, about 6 in 10 of those high-income customers in Brazil are already Nubank customers that have a credit card, a bank account and other products with us. And so we already have a great starting point in terms of an established relationship with those customers. In fact, quite recently, Bain just published its most recent Prism NPS report for Q1. And what that shows is that the segment of customers where we have actually our highest NPS is with the high-income customers. Now that's a segment where many players have a stronger NPS relative to other segments. But our lead in that high-income segment on customer love on NPS is roughly the same. It's in the same ballpark. So we are encouraged that we are establishing credibility and trust with that customer segment. And we're starting to see that in our products, whether it's in the credit card product area or others, where we're getting increasingly confident based on the activity we're seeing with high-income customers that they're starting to believe and think of Nubank as a bank that they can work with. And so that progress that we are seeing over the last couple of quarters is starting to give us increased confidence that we can address that segment with a full suite of products. Credit cards as always are usually our lead product and that's been several years and lots of work on the road map to start to make that happen.

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

Eduardo Rosman: Congrats on the numbers. I have a question regarding your underwriting skills, which is also a follow-up to what Jag just explained. Clearly, you are doing a very good job since you've been able to grow a lot over a long period of time and also with better asset quality, but that's particularly true on credit cards, right? Here, the way I see you with the best product, particularly for the average Brazilian, do you think that the quality of your products and the high principality that you have with your clients create willingness to pay that could maybe be as important to know as the underwriting skills? And also as a follow-up, right, we're still not seeing the same thing happening on personal loans. We can see, let's say, naturally a very good performance in credit cards, personal loans are still catching up. So do you think that, that is just a matter of time or the product is just different?

Youssef Lahrech: Rosman, this is Youssef. Thank you for the question. So let me try to address in turn the points you raised. So I would say that when we look at our experience in credit cards and in unsecured personal loans, we see the methodology, the playbook, the governance process, the data, the tools we've developed to work just as well. Obviously, the personal loans are a lot more recent since inception than credit cards. But when we compare at the same point in time, we see a relatively similar level of leverage that we get from all those methodologies and processes and governance we've developed. And I don't think it's a leap of fate to believe that it would extend to other categories beyond unsecured personal loans in terms of the underwriting advantage it gives us. To your other point on willingness to pay, yes, we do see some evidence that we have a willingness to pay advantage, in particular, when we look at things like principality, customers that we've reached primary bank account relationship status with as Lago was mentioning earlier. And so that has to be a product of a lot of things, some tangible in terms of how we service those customers, some perhaps intangible having to do with brand, having to do with loyalty, having to do with NPS. And I think there's a lot of factors that go into that, but there's confidence that that phenomenon also exists.

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

Mario Pierry: Let me ask you a question on funding costs and deposits. I think Lago mentioned that the funding costs should stay around 80% of CDI in the next few quarters. Just wondering if this number shouldn't be lower in the longer term, given that some of the incumbent banks have funding costs of like 65% of CDI. If your strategy in remunerating deposits would change in a lower rate environment because before, right, historically, you're remunerating clients at 100% of CDI. So I don't know the reason why you think that 80% is the right number. Does it mean that you'll be willing to remunerate clients higher if rates come down? And then when you talk about your deposit base staying stable in the quarter. There's some seasonality in the fourth quarter, which we do agree on. But when I look at your deposit per client, it has been trending down. So I don't know if that is a function of the change in remuneration? What do you think explains the lower balance for clients?

Guilherme Lago: Mario, this is Lago. Thanks for your question. Let me try to take them in turn as well. So first, with respect to the cost of funding, we do expect that for the coming quarters, the cost of funding will remain at around 80% of CDI. We can’t be super precise on this because it largely depends on customer behavior. And we don't offer 80% of CDI per se. We basically offer a combination of products,

which is composed by the Money Box and the demand deposits that compounding with the customer behavior that we have observed results in and around 80% of CDI. We do expect this to remain as such. And usually in the fourth quarter of each year, there is a slight drop in the cost of funding because there is now a seasonally high inflow of deposits as we observed in the fourth quarter of 2022, so too, we expect to observe in the fourth quarter of 2023. But by and large, it should remain at about 80% of CDI throughout the next 4 quarters. We do believe that there is the opportunity for us to continually reassess and reflect on the value proposition that we are offering to our customers with respect to their savings and investments. At this point in time, we do not have any short-term plans to actually change those features that will lead us to lower funding costs, although we do appreciate that there is a value lever there. If and when we find a value proposition that will actually be net positive to our customers, we should certainly entertain it. But you should not expect any material change to the funding cost over the next 4 quarters. So I think that's the first part. The second part, we did see a slight drop. I want to say about 5% or 6% in deposits per customer in the first quarter of 2023, that is largely seasonal based on what we have seen. In fact, if you look at the Brazilian market, the demand deposits of the whole system during the first quarter of 2023 dropped by about 10% so the average demand deposit per customer of Nubank dropped by about 5%, 6%, in fact, we gained some shares. And what we have seen post the end of the first quarter of 2023, deposits continue to behave as expected. And we do not see, as we mentioned in the prior call, any relevant impact to our inflows or outflows as a result of our having changed the remuneration of the content introduction of Money Box in the third quarter of 2022.

Mario Pierry: Great, Lago. Just briefly then stay on deposits. If you can talk about the duration of the deposits and how you could change this going forward, especially as you go into longer-term products such as payroll loans?

Guilherme Lago: No, absolutely. That is a great question. And we do expect to continue to increase the average duration of our deposits as we decrease the average duration of our credit assets. That will be largely tied to the ramp-up of our payroll loan book, and we can do so primarily through the offering of time deposits to our own retail customers.

Jörg Friedemann: And our next question comes from the line of Rafael Frade from Citi.

Rafael Frade: Congrats on the results. I have a follow-up on your credit card book. So you had a huge increase in the receivables paying interest, right? And this was a relevant portion of increasing the profitability of the quarter. So I just would like to understand a little more about the initiatives that you have been taking to increase the receivables with interest in this portfolio? And if you think that we are close to a level that should be sustainable, some more room to go. So just trying to understand what's going on in July?

Guilherme Lago: Yes, absolutely, that is a great question. And in fact, I would try to draw your attention to Page 16, in which we provide the breakdown of exactly what you said, the interest earning portfolio within the credit card. And as you can observe, the non revolving interest-earning portion of our credit card book has grown from about 8% of the total book to 16% of the total book in a year. So a fairly no relevant increase, and we are very pleased with that performance. What is the source of that performance? I think we are basically managing to develop new financing products and features through which

customers can actually now gain financing capabilities through their credit cards, mostly related to peaks financing and bullet financing. So those 2 features now account for the vast majority of this increase. And what I would highlight as well, if you also look at the interest-earning portfolio, is that while our non revolving interest earning portfolio went from 8% to 16%, the revolving part remained largely flat. And what we have learned over the past 4, 5 quarters is that these additional financing features have resulted in no incremental credit risk to our book, which is, I think, a very pleasing output for us.

Rafael Frade: Just to understand here, what I think that's very curious is that when I look for the interest rates on credit cards, they are close to 9%, if I'm not wrong, according to Brazil Central Bank, while the personal loans have a lower rate. So I'm curious why a client is taking credit card installments instead of personal loans? And maybe part of the question you already answered because it's products that probably are not available on personal loans, right? So just to understand why the client is financing through that.

Guilherme Lago: Yes, I think it's important to note that the interest rates of those financing features within credit cards, what I'm calling *pix* financing or *boleto* financing, are closer to 5% to 6% per month, so much more in line with unsecured personal loans.

Jörg Friedemann: And our next question comes from the line of Gustavo Schroden at Bradesco.

Gustavo Schroden: Congrats on the strong results. I'd like to switch out the discussions to the operating expenses or the cost side, I mean, we discussed a lot about the revenue generation. And indeed, the main beat versus our numbers here was on the operating expenses. And I'd like to understand because we finalized the evolution of especially the non-revenue-linked expenses. I'm talking about SG&A and marketing expenses. We could see a nominal decrease year-on-year and also quarter-on-quarter despite the fact that the bank is growing very fast over the core. So my question is is it sustainable to keep or to continue decreasing the non-revenue linked expenses in the coming quarters? Or was this some adjustment that the bank did in the quarter, especially on, as I said, SG&A marketing expenses? It drew our attention in this quarter, and I think it is very important to understand the investment thesis.

Guilherme Lago: No, absolutely, Gustavo, this is Lago. Thanks for your question. I would -- for those who have not yet seen, I would draw your attention to explanatory note #8 of our financial statements that probably bring a very detailed breakdown of those operating expenses. But I think if you look at those statements, you will realize that within operating expenses, which grew by only 12% over the period, you largely have 2 items. You have customer support and operations, which over the past 12 months, grew by 75%, and you have G&A, which basically stayed flat over the past 12 months. And within G&A, the main things there are payroll and share-based compensation. And Gustavo, to your point, there are a few things there are non recurring and a few things there are recurring. Let me try to break them down. One of the main impacts of the largely flat or decrease in G&A is the cancellation of the contingent share award, or CSA, that took place in the second half of 2022. There was something that basically caused the company something about $70 million to $75 million per year, the elimination of which brings us no relevant savings. That level of saving, of course, is non recurring. It happened from 2022 to 2023. We do not expect to see those deltas coming through over the coming years, but we do expect to continue to see the elimination of the CSA, right? Just to be clear, we're going to have no further expenses with CSA over the coming years. The second level is that we basically capped headcount largely flat, if not slightly down over

the past 6 to 12 months. And that part, I think, is recurring. If you take a look at our overall cost base, between 50% to 60% of our cost base is payroll related and about 20% is technology related. We do expect that we will grow over the course of the next 18 months at a fraction of the velocity at which we grew headcount over the past 18 months. And is that sustainable? We believe this is sustainable, especially with the adoption of best-in-class processes and technologies that will materially increase the efficiency and productivity of the company overall, as we have seen over the past 12- to 24-month period.

Gustavo Schroden: Very clear. Just a follow-up here, Lago. It's very clear on the G&A expenses and about the marketing expenses. I mean, draw our attention, $19 million the first Q this year, that was much higher, for example, last year in the last quarter. I mean, should we continue to see the bank with this lower level of marketing expenses? And also, just I mean, it's a soft guidance that I'm asking here regarding the percentage of total operating expenses versus the total revenue. This quarter was 25%. Do you think that it is a reasonable level or that it should increase to something that as we saw in the past?

Guilherme Lago: So Gustavo, on marketing expenses, I think they are a relatively small portion of our operating expenses, and they have been since the inception of the company. Most of our customer acquisition happens through MGM. So we have historically had a relatively low investment in marketing. But the 2022 numbers have also been potentially inflated by the investments that we made in the World Cup, which we do not expect to see in 2023. So you should expect to see marketing being between 5% to 7% of our total operating expenses, as was the case in 2022 and as we expect to be the case in 2023. We don't think that the levels that we have landed in overall efficiency ratio are non sustainable. In fact, we think that we are nowhere near the efficiency frontier. There is more efficiency to be achieved over the course of the coming quarters.

Jörg Friedemann: And our next question comes from the line of Neha Agarwala from HSBC.

Neha Agarwala: Mostly follow-ups on the questions previously asked. So first, on the cost. So the cost to income right now is about 36%. Do you see a room for reducing it further in the short term? Or this is a good level at which you could operate? And should this increase maybe as you get your licenses in Mexico and in Colombia, you've launched more products in Mexico, should we see tax to income increase as the Nu geos may require more investments upfront and monetization is going to come with a lag? And my second question is on the high-income segment. Your comments about having the highest NPS in the high-income segment. Was a bit surprising because there are not a lot of products to offer for the high-income segment. So what are we missing here? What are the main things which are allowing you to capture the high-income segment in your view? Is it the ultraviolet card? Is it some other offerings that you have or just the experience? Because I would imagine the requirements for the high-income segment are much more broader. They require many more products, more personal attention. So if you can shed some light on that, that would be great.

Guilherme Lago: Great, Neha, let me try to take your first question on efficiency and then I'll ask Jag to help you with your question on high income. So on efficiency, we, as you said, reached a level of 39% on a combined basis. And if you take a look on Page 7 of the earnings presentation of 37% in Brazil only. So Brazil is not surprisingly more efficient than the consolidated basis. And we do expect that there is room for additional efficiency to be achieved in both Brazil and a consolidated basis. We don't expect that 37%

in Brazil or 39% at the holding company is really kind of the best-in-class that we can achieve. In fact, a lot of the costs and expenses that we are incurring in Brazil and certainly in Mexico and Colombia, our cost and expenses related to products or features that are not yet generating any revenues. And once they start to generate revenues, they should continue to contribute to the efficiency ratio. And in that lens, I think Mexico and Colombia, we'll have to increase their operations once they become fully regulated. In fact, Mexico has already become fully regulated, and Colombia is expected to be fully regulated by the end of this year, and we are preparing all of our sources accordingly. But I believe that the additional revenues that you're going to have in those countries will more than offset the additional cost and expenses that will have to be invested there in a manner that will not be detrimental to the overall efficiency ratio of the company. But that was the first question. I know that you also had a question on high income. Jag, would you share some thoughts there?

Jag Duggal: Yes, happy to. Thank you, Lago. Great question. And let me try to address it in a couple of steps. First of all, what we have found is that when we offer products targeted at the high-income segment and as we optimize those, we certainly see improvements in NPS as we measure them product by product from that high-income segment. We have seen that with our *Ultravioleta* credit card. We will expect to see that in the future as we launch more products targeted at that segment. We've actually talked today about, for example, the consignado product for federal employees, which actually also tends to skew high income. So we'd expect that trend to continue as we go forward. The NPS measurements that we see today, however, are also related to the fact that our core products whether it's our core *Roxinho* credit card product or bank account product have features and ease of use and simplicity, transparency of pricing, all of these key pieces of our value proposition that resonate with high-income customers as well as the mass market. And so that, combined with the investments we've always made historically in customer experience and customer service, are what's leading to our NPS position with the high-income customers just as it's leading to our NPS position with other segments. As we increasingly focus our product development efforts to build products designed specifically for high-income customers, we expect NPS with them and our traction and principality with them to further increase, but it's still relatively early days of those dedicated efforts on our part.

Jörg Friedemann: And our next question comes from the line of Domingos Falavina from JPMorgan.

Domingos Falavina: Congrats on the print and very surprising costs and top line. But my question, I guess, just to shift a little bit more to Mexico, when I look at the operation in Mexico, we see basically loans, I mean one part number is stabilizing, right, around $630 million to $640 million actually. And you didn't grow in the last month January, February, but provisions actually did come on a similar basis before $20 million. So I guess my question is, are you doing the same kind of provisioning levels in Mexico for expected losses in which case growth should be the main driver for that expense? So that's kind of the first kind of more accounting question. And the second one is what's your thinking process in Mexico? You plan on holding this stable for how long, what's the average duration of that portfolio to learn from that vintage before we're accelerating?

Guilherme Lago: Dom, thank you so much for the question. So I think Mexico, we launched Mexico just a step back slightly less than 3 years ago. And Mexico has already achieved over 3.2 million, 3.3 million customers. So it has had phenomenal growth. Last year, we became the #1 issuer of credit cards in the

country. And basically, Mexico is beating Brazil across every single KPI that we have. We did grow credit cards and we did kind of see a fairly steep growth in customers over the last weeks, primarily after the launch of NuCuenta, as we mentioned in this call, that reached over 500,000 customers. So we are super pleased with what we find in Mexico so far. Now with respect to provisioning, number one, you will only see the expected credit loss provisioning in the consolidated books that we do. In the local books, you will see just Mexican GAAP. You will not see the same IFRS expected credit loss provisioning that you will see. The second one is that once you look at the NPL ratios that you have in Mexico, as we are *SOFIPO* we usually present our results in terms of delinquency at 60-plus NPLs, whereas the banking industry in the country usually presents this as 90-plus. So not entirely an apples-to-apples comparison. Now I think the underlying question may be what is the unit economics of the credit card in Mexico? What are the overall credit losses in Mexico? And how do we expect this portfolio to behave and to unfold over the coming quarters? We do not expect the Mexico delinquency levels to be at par with Brazil, especially at the early days of the ramp-up of this business for a few reasons. Number one, once we enter a country, like we do in Mexico, we systematically launch a number of foundational tests that we basically test customer behavior and repayment profile across very different bands. The second one is that the customers in Mexico usually use credit cards primarily as a means of financing, not as a means of payments, as is the case in Brazil, and therefore, interest-bearing balance in Mexico are much higher than they are in Brazil, and we do expect that cohorts will have higher delinquency levels at some point in time. And third, I think early stage cohorts usually have higher delinquency levels once they mature, their delinquency levels go down. So if you were to compare the delinquency levels of Mexico with delinquency in Mexico or Brazil, you will likely see higher levels now and probably higher levels even in the future. However, the unit economics of credit cards in Mexico are as compelling, if not more compelling than in Brazil. The return on assets and the return on equity that we expect to have for credit cards in Mexico are at par, if not higher, than the ones that we expect to have in Brazil. And then finally, as we basically earn more customers through NuCuenta, and we get more customer principality data and deposits, we do expect to continue to ramp up credit cards in that country.

Domingos Falavina: Very clear, Lago. If you were to base your experience as in Brazil, as we look at this monthly data, you would expect about a quarter or 6 months or a year of more stable loan growth. I guess my question is how long do you have to see that portfolio behavior before you get ready to be confident again?

Guilherme Lago: No, we will be resuming growth in credit cards in Mexico throughout the second quarter and throughout the third quarter of the year. We have, by no means, no slowdown in Mexico, and we expect to continue to increase our product penetration in the country.

Jörg Friedemann: And our next question comes from the line of Craig Maurer from FT Partners.

Craig Maurer: To follow up on the earlier questions on pursuing more high-end consumers. The question is, to what degree do you think your customer base now and then in the medium term will overlap with small business owners in Brazil? And how can you expand your product offerings to cross over into the small business market?

David Velez: Craig, David here. Thank you for the question. So we actually already have a very significant base of small business owners. We have over 2.3 million SMEs in our base. And it's actually very much related to what you were saying. A lot of the small business owners end up being internally as high income. We initially went to small business owners because our consumers where we started would tell us that they were getting really, really bad service by traditional institutions in Brazil. So we saw an opportunity there and started cross-selling the small business product to them. These are the businesses that have a lot of potential. We probably haven't given it as much focus as we should, but we see significant growth ahead. We still have a very reduced product portfolio where we have a savings account, a detailed account, and we're starting to roll out a credit card product for small business owners. And we see a really great product market fit. We've launched around also payments receiving. So overall, we're very excited about the opportunity there.

Jörg Friedemann: And this concludes the Q&A session of the call. I would like to thank you all for participating in this session today and learn more about our path of growth and profitability. I welcome you to access our Investor Relations website and follow up with us if there are any pending points. Thank you very much for being with us today.

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

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