Videoconference Transcript
1Q24 Results
Santander
April 30th, 2024

Camila Stolf: Good morning everyone and thank you for joining us this morning for our first quarter 2024 earnings teleconference. As always, this event is being broadcast live from our headquarters in São Paulo and will be divided into three parts.

First, our CEO, Mario Leão, will discuss the key highlights of the period and the strategies through which we will continue to drive our growth in the quarters ahead. Then, our CFO, Gustavo Alejo, will provide a detailed analysis of the performance. Lastly, we will have our Q&A session, during which you will have the opportunity to interact directly with us.

Before we begin, I would like to provide some instructions. We have three audio options on the screen: all content in Portuguese, all content in English, or in the original audio. For the first two options, we will have simultaneous translation. To select your option, simply click on the button located at the bottom center of your screen.

To ask a question during the Q&A session, just click on the hand icon located at the bottom of your screen. Questions will be answered in the language in which they are asked. The presentation we are delivering today is already available for download on our Investor Relations website.

And now, I hand it over to Mario Leão to begin the presentation.

Mario Leão: Hello, good morning everyone. It is a pleasure to have you here for our first quarter presentation. It is now 10:02 AM. We are here live with you. And, as always, I will begin with a summary, which I will later elaborate on with Gustavo, highlighting the key messages of the quarter and also the overall tone we want to convey to you about the year.

In the first section here on the left, we underscore with some figures the evolution of several of our major income accounts and how we are positioning the bank for 2024, and beyond. So, it's about 2024, but obviously it's about the next few years as well.

We have a net interest income, year on year, that grows by 14%. We will soon detail that it is growing from both the client and market viewpoints. We have a positive market NII after a long time. We have fees and funding also experiencing double-digit growth. This is extremely important because it reinforces what we have been telling the market for a few years about the need for portfolio diversification.

We built, during our first major growth cycle, a Santander that was heavily reliant on markets and credit, particularly in the low-income segment. From 2022 onwards, we have been working to continue extending credit, but increasingly diversified credit. We are showing this with considerable emphasis in this quarter, and also generating more fees from an already broad base, and securing funding with a focus we never had before. Thus, this quarter we show, with considerable consistency, this portfolio diversification, with very robust figures.

Our allowance for loan losses also experiences a double-digit decrease on a year-to-year basis. It also drops by two digits quarter on quarter, as we will see shortly, which shows that our strategy of portfolio diversification and building new vintages since 2022, with a loan quality that we have been measuring, testing, and retesting, is working exactly as we would like.

Our expanded loan portfolio is growing nearly double digits across several portfolios, which are, in fact, portfolios we have targeted for higher growth. We have an annualized growth rate exceeding double digits, even more than that. With this, we achieved a net profit slightly over BRL 3 billion, a level we are pleased to announce.

It's been a while since we reached BRL 3 billion, and I would say that the quality of this BRL 3 billion, which is a BRL 3 billion that we have attained by resuming growth, reaccelerating our operations in the right, strategic manner that we established a good while ago. It's a very solid, very clean BRL 3 billion, with no extraordinary items in the result, which makes us quite happy. Obviously, we are working to achieve more, but in a very solid way.

Our ROAE, already slightly above our cost of equity as measured by the market average, now in the first quarter. Obviously, we are driving a recovery of ROAE, and in the first quarter, we have already taken a step in the right direction.

On the right, I highlight, and later I'll delve a bit further, some key messages for the quarter, but these are more so messages for the year, which I wanted to bring to your attention here. They are all very important.

The first one: we are in the midst of a transformation. We initiated this in January, and over the first quarter, we have carried out what we call a thorough transformation of our store model. I will have the opportunity to elaborate on this later, but in a nutshell, we are reshaping the way we work with our stores, the way we operate within the stores, and we are indeed moving towards a much more connected, multichannel experience, leveraging the store as a key element of distinction and convenience.

Alongside this redesign of our stores, we are moving towards a markedly different approach to serving small businesses. We are starting to operate in the vicinity of our stores in a much more assertive and powerful manner. I will comment more on this shortly. We are redefining how we interact with and cater to our middle-income customers.

We used to serve the middle-income client, whom we internally call Van Gogh, within our stores. Thus, in a flow that combined the overall store flow and the small business flow, we now provide service to middle-income clients through what we call platforms, regionalized platforms spread throughout Brazil. With this, we have a much better ability to serve these middle-income clients, who are millions of customers with enormous profitability potential within our base.

We have done it and now we are delivering something that I have been discussing with the market for several quarters. We are relaunching, reestablishing, our mass income operation. This was literally two days ago, on Sunday. And I will have the chance to comment a bit more with you about this, which is our *Começa Agora* movement, and it is more than a new offering for the mass income segment. It is a full repositioning of the Santander brand, the way we position ourselves, the way we communicate, the way we talk to the customer. And yes, it is for the mass income segment, which is our large customer base and of the entire market as well. A positioning that is much more precise, much more assertive, and much simpler.

Continuing here on slide 5, I will briefly discuss, as it could not be otherwise, beginning with customer centricity. We remain extremely focused and obsessed, I would say, with gaining and retaining customer principality. In other words, to be the bank most present in the lives of our clients. This is our obsession, our top priority. And to this end, we are working hard on all fronts: channels, segments, products.

We are showcasing, in the lower left, a quite positive evolution in our NPS. So, year over year, we have our NPS materially improving across virtually all channels, in all segments. If we examine product by product, we also have significant improvements in accounts, cards, and a range of others. Therefore, it means that we strongly embrace, I would say we grasp the theme of customer experience with a lot of emphasis and have made heavy investments towards this.

So, we are obviously never satisfied here. We want to keep improving, but we have seen substantial improvement year over year, and we remain highly focused on this throughout the year.

We are seeing our clients with continually improving vintages. Thus, here, that argument that we faced profitability challenges with older vintages, which we are well aware of, and which I have been discussing here with you for nearly two years, along with Gustavo and the Investor Relations team, we are now witnessing increasingly better vintages. The profitability of the latest vintages, specifically the 2023 vintages, here on a base 100, we have managed to boost the profitability of this vintage by 56%.

While the 2022 vintages also show a notable improvement in profitability, the older vintages, the 2021 vintages, are experiencing a decline in profitability, due to the phasing out of this portfolio that was significantly expanded between 2020 and 2021. And we are aware that this, over recent years, and to some extent still in 2024, incurs a cost that is progressively being offset by what we have been accomplishing in the new vintages since 2022.

Our loyal customer base is expanding annually. Naturally, we aim to accelerate the growth of these loyal customers. They are unquestionably the ones who yield the highest profitability per customer. Hence, our entire model and strategy is oriented, as I stated, towards customer centricity, enabling us to be the most active bank in our customers' daily lives and, thereby, fostering increased customer loyalty.

Here, I highlight some of our growth levers, starting with Select. We have been consistently talking about Select for several quarters now. Indeed, we have been consistently discussing nearly all the major themes here, indicating that the strategy we established back in 2022 and perfected in 2023, is the strategy we are adhering to. And I look forward to discussing, for many quarters and years to come, the same major themes with you.

High-income is a major focus here at Santander. We see Select as a powerful lever for growth, profitability, customer loyalty, and cross-selling. Not too long ago, we had 600,000 Select clients. And now, we proudly present the figure of 1.4 million. You may remember that not long ago, I was talking about the ambition to reach 1 million. We reached this goal at the end of last year, already exceeding 1 million, and we have grown even more in this first quarter. Obviously, we are on a countdown to pursue 2 million Select clients, and we expect to achieve this in the short to medium term. But we are growing steadily, attracting investor clients and also borrower clients, which is important. Select is not just about clients who invest. We have nearly a third of the individual loan portfolio in Select clients, obviously with a lower cost of risk and a portfolio that is not less than BRL 68 billion in Select loans.

Along with this, we have attained the highest net inflow in Select's history. We will delve into this in more detail on the following page, looking at retail as a whole, I would say at the bank as a whole. So, from the investment side, from the Select investor client side, we are doing an increasingly better job consolidating the strategy we implemented when we redesigned Select nearly two years ago, when we set up our advisory channel, which we call AAA, and by doing all of this in a highly integrated manner with a comprehensive offering for high-income clients.

On the following page, page 7, I place a slightly greater emphasis on the topic of investments. As I stated at the beginning and have been telling you since 2022, we had a major gap in the bank's business portfolio. We recognized this and started to consistently invest in directing the organization towards the theme of funding on this side of the balance sheet, thereby consistently reshaping the bank's funding mix in Brazil, which has always been more proportionally reliant on wholesale and institutional clients than on retail, whether business customers or particularly individual customers in retail. This quarter is yet another quarter of solidifying this strategy. Clearly, this is a marathon of many years, but we are extremely focused at every step. This strategy will never be reversed, and we are delivering the best quarter in our history in terms of funding.

Our retail segment has seen an 86% increase year-on-year in funding from individual customers compared to last year, marking a highly significant leap. We have achieved a net inflow in retail of BRL 7.2 billion in the quarter, with BRL 5 billion originating from our advisory channel, our AAA. We are in the process of consolidating AAA. We have not yet reached our public goal of 2,000 advisors. However, beyond being a time-bound goal, we believe this is the optimal number to ensure the lowest client load per advisor in the market, implying a unique ability to provide advisory services to our investor clients, which we believe we possess here at Santander.

On this AAA channel, we have an average inflow of BRL 3.7 million per advisor for the quarter, a figure that is quite robust and represents a major jump from the previous year, meaning that we are consolidating our strategy. Undoubtedly, we aim to grow this even further, but we are already at a level that makes us quite pleased.

For Toro, our digital brokerage, we are continually exploring ways to integrate and establish a unique approach in the individual brokerage segment, multichannel but heavily grounded in digital. Toro also showed solid growth in the quarter, with a funding increase of over BRL 3 billion and reaching nearly BRL 20 billion in assets under custody. It also possesses, just like our individual retail segment as a whole, a very high NPS.

Our Private Banking unit achieved nearly BRL 2 billion in funding this quarter. We expect to speed this up over the course of the year. It was once again acknowledged as the top international Private Bank in Brazil and is steadily increasing its market share. So, the overall message in investments is this: the organization's switch has also flipped for funding. We are looking at both on and off balance in a much more solid, much more focused way. And I am confident that it will be one of the major levers of differentiation in the wealth of our results and business portfolio over the coming years.

Here, I cover in two pages what we have termed as "Strategic Businesses" since 2022. The purpose here is to underscore to the market where we have decided to concentrate on, the reasons behind this decision, and how we are delivering on it. So, I highlight four key businesses: the first being the card business, which has been increasingly gaining more attention in our disclosures, given that we have resumed selling cards more assertively since the second half of last year. We are resuming card growth literally with the same level of appetite, but with significantly more advanced technology in terms of customer personalization, differentiating the non-customers we aim to attract, the non-customers we wish to avoid, and a greatly improved ability to activate the customers we already have in our base. I will elaborate on this shortly.

Therefore, in practical terms, we are expanding, selling cards on a larger scale than we were doing a year ago. This is resulting in a rise in turnover year over year, as depicted in the first graph on the top left, and each quarter we are increasing our total turnover. We are, in fact, increasing the average spending per client and also expanding our client base for the first time in a long while. We, I would say for the first time since 2021, are experiencing growth in the client base in the quarter, year over year, which is represented by these 3% that I show here in the second graph, and a turnover that is growing even further. In other words, we are growing the customer base, resuming the growth of our customer base, and we are seeing a significant increase in the average spending per client.

On the right, I address the payroll loan business. This is something I have been discussing with you on a quarterly basis. We have been consistently working hard since 2022 to increase our market share and to do so with quality, with both the correct pricing and an appropriate risk level. Our loan performance is better than the system's average and yet we are increasing our market share, accompanied by a record origination level. The portfolio has grown to BRL 72 billion and we have the highest level of origination we have ever achieved, as the graph here also illustrates.

So here, in summary, regarding payroll loans, a highly competitive product as we are all aware, in which virtually all incumbents, mid-sized banks, and digital banks are entering, we are highly confident in our strategy, in our multichannel approach also in payroll loans, in our diversification. We have a very robust payroll loan business, growing in the INSS segment. We have a well-established payroll loan business in governments. And we have a very strong payroll loan in the private sector.

Here, focusing on Consumer Finance, we have a business that is a market leader, as we know, which continues to maintain a share above 20%. We are at approximately 21%. Here, it's not about the share for the sake of the share, we are doing it right. We are also at record origination levels at our Consumer Finance unit. We began the year in the same vein as we ended the previous year. In fact, since August of last year, we have been working very hard on the resumption of Consumer Finance. Why did we resume accelerating our Consumer Finance business? Because we observed, over 18 months, that all the adjustments we needed to make to the portfolio had already been made, and realized that it was time to restart, always with higher ratings.

Therefore, we continue with a high degree of strictness and I would say a significant constraint on the customer base we are currently working with, although we are succeeding in terms of penetration and expanding our portfolio with highly positive origination, thanks to our relationships with both stores and major OEMs, as well as large automakers, which are also performing quite well.

In the agribusiness segment, we are maintaining positive growth. Agribusiness has had a year, not agribusiness as a whole, some of the crops have faced a more challenging year this year, such as soy, corn, while some others are having a year that is actually very positive. So, Santander has embraced agribusiness for about 8 or 9 years now. This embrace will continue. Actually, this week is the week of Agrishow, and we will be there, present and strong. So, we continue to grow in agribusiness. Possibly, we will grow less strongly than in the last two years, in which we virtually doubled the portfolio, but here you can see, we have grown the portfolio by a few more billion and we continue, of course, to monitor each case very closely, but with a medium and long-term bias as it should be in the case of agribusiness.

Here, quickly covering the companies business, or the business of companies, we, on the left side here addressing SMEs, we remain with the ambition to double the size of this business. We are confident that we can double the business in a few years and we will strive for this, naturally, growing together with our clients.

We continue to grow in loans, we continue to grow in transactionality. Here, delving a bit deeper into our approach to servicing small businesses, we are essentially taking the small business service out of the stores. In our new store redesign, we position small business specialists in the vicinity of the stores, covering what we refer to as microregions. We are significantly expanding this team, adding hundreds more people and an entire management structure to ensure a more widespread service for small businesses.

We have drastically decreased the average coverage radius, and we have multiplied the number of daily visits that each specialist can make. Ultimately, what we want, in a nutshell, is to dominate the microregion, to control the surroundings of the stores, using the stores as a hub, but no longer having the specialist there in the store serving the flow that came and continues to come to the stores. So, we begin to provide a service much more within the client's home, much more where the business is located, as opposed to making the business have to come to the bank. This is very powerful, it is quite innovative and we believe that there will be a consistent gain from here.

On the corporate side, we continue with solid franchise growth. We remain leaders in several markets where we have been operating for years. We are consistently ranked first or second in numerous league tables. Our investment banking franchise is becoming increasingly consolidated. While it is true that the first quarter was not the most vigorous in investment banking, M&A, and particularly in the equity capital market, in debt capital market, where our franchise is well-established, we had a very good first quarter as did the rest of the market.

Thus, we are experiencing a highly positive dynamic in the debt capital market, while equities and M&A are yet to meet expectations, but we anticipate improvements over the year. Nevertheless, the franchise is growing overall, with gains in revenues and profitability. We have maintained strict discipline in the corporate segment, not necessarily pursuing share, obviously with a major focus on profitability and a thriving capital and fixed income market. We face competition from funds and market operations, and we often simply let go of operations, acting more as a distributor than as a credit holder, as a balance.

Here, my final slide and then I will take a break. This is perhaps the most crucial subject of today's session, as it encapsulates our refoundation, our repositioning, and the reintroduction of our strategy for the mass income segment. Before going into the value proposition and the repositioning itself, which we refer to as *Começa Agora*, why are we doing this now? What is the context that prompts us to make this decision now? The rationale behind our actions is just as important as the actions themselves.

The first major data point is that we operate on a digital-first basis. We are not exclusively digital, which is good, as we are a multichannel operation, but we are digital-first. More than 90% of our clients use our app, we have experienced a reduction of over a third in the number of visits to our stores, and we have seen more than a 20% decrease in the number of calls to our call center, our remote customer service. Therefore, the customer has been learning, we have been teaching the customer, and naturally, the market has also been educating the customer to make our relationship predominantly a digital one.

Secondly, we possess a powerful remote conversational tool. We have a first call resolution rate, meaning the ability to assist customers on their initial call, at 97%. We are witnessing a growing usage of chat within the remote channel, so the remote channel, which we and most incumbent banks initially built for phone calls, is progressively transitioning towards chat. This chat, encompassing the chatbot, the non-generative artificial intelligence chat, and the human chat, is now incorporating the GenAI element, generative artificial intelligence, to aid us, thereby enhancing productivity and boosting our ability to serve customers.

So, the digital context on one hand and the remote conversational context on the other, lead us to launch this store redesign at the start of the year. I have already touched on the subject of small businesses, quickly mentioning middle-income. What we do, as I initially stated, is we also remove the specialist, whether male or female, who catered to middle-income clients and introduce the concept of platforms: Van Gogh platforms and middle-income platforms, which are fundamentally physical spaces located within the stores, separate or in other offices that we have spread across Brazil. We have nearly 200 of these offices. Hence, we are catering to our middle-income clients in a regionalized, localized fashion, thereby enabling these specialists, whether male or female, to deliver proactive and reactive service in a much more assertive manner.

Therefore, we anticipate a significant leap in our ability to attract middle-income customers to Santander. It's just the beginning, I will keep the market updated over time, but this is a major launch that we are making at the start of the year.

Hence, the store ceases to be the holder of a customer portfolio, this is a leap we take. The store had its own result deriving from the result of mortgage loans issued two years ago, from the credit card sold a year ago, and so forth. We eliminate this, the store transitions to being a Santander store, as I refer to the branches, and it essentially becomes a point of sale and a customer service point.

It is unquestionably a convenience element. It is a part of our value proposition, our multichannel value proposition, and becomes a part of this comprehensive offering that caters to all the bank's clients. From the smaller customers, those we aim to serve through Free will also have the ability to visit the store, to clarify their doubts, to have assisted sales for higher value-added products, up to a Private Banking client who may have a need and will obviously have the stores to be served.

The specialist and the leader in the store will be measured by the sales achieved on that day, and will be evaluated on how effectively they made that sale or provided the service, if it wasn't a sale. Thus, our incentive models are updated for sales and service, making the store's role much simpler and clearly more focused. And we finally become retail, which is what I have been saying for a long time. We are taking this decisive step now.

With all of this, we finally make the jump, which I would describe as the ultimate jump towards the mass income, low income, which is the reintroduction of our value proposition, but within a scope that is even wider, which is the scope of our rebranding, our brand repositioning, our repositioning of communication with the market, the change of our tagline. Therefore, "What can we do for you today?", which lasted for roughly 7, 8 years, is shifting to *Começa Agora*.

And *Começa Agora* holds immense power. It resonates with our fresh start regarding the mass income segment, the start for all our clients and non-clients each day, the start of the project, the start of the activity, the start of the dream, the start of the investment, of consumption, indeed, the day is filled with starts. From this point, we position ourselves as the bank that wants to be the most present in our customers' lives. We are the bank that will be there for all our customers' starts. Therefore, this new value proposition, this new positioning in the mass income segment, and also of the bank as a whole, is a very powerful, very significant step that we are taking. It was literally a day and a half ago, and I seize this moment to break the protocol here and share with you the video that tells the story to better materialize than me speaking. It's the video of the campaign, it's a short one, and here I pause for Gustavo to present the figures. Thank you.

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***Começa Agora* video:** Not every start is easy. But at some point, everyone has to start. Introducing Free, the start of a new relationship between Santander and you. Lighter, more digital, simpler. Truly and forever free account and card. 10 interest-free days in the account with the PIX key and unlimited withdrawals. Free, no asterisk. *Começa Agora*. Santander.

Gustavo Alejo: Thank you, Mario, good morning everyone. On that note, let's begin our presentation. We'll start with the figures from our net interest income, which also underscore our growth resumption, as previously discussed. The NII achieved growth of 14.5% in comparison to the prior year and 7% over the preceding quarter, indicating a positive performance from both the client and market sides, which is quite important. This quarter, we continued to observe the same trends that we highlighted at the end of 2023, with the expansion in our retail loan portfolio and the decrease in the Selic rate favoring our funding cost.

Furthermore, the increase in spread levels with loan quality under control, which I will elaborate on shortly, showcases our assertive strategy of gradual resumption of business dynamics. The market NII exhibits ongoing progress and is at a positive level, in line with the expectations we have been commenting on in past quarters. We are optimistic about the performance of net interest income, which is expected to positively reflect our growth resumption.

Moving on to the next slide, I will comment on our loan portfolio that has seen a 5% growth over the year, with highlights in the retail segment for individuals, auto loans in Consumer Finance, and SMEs. As for the corporate segment, as Mario has previously noted, we saw a more competitive credit environment, and we will be prioritizing profitability. In addition, we witnessed a substantial growth of 23% in our portfolio of private securities and guarantees over the last 12 months, of course. This has resulted in an overall growth of 8% for our expanded loan portfolio.

Looking at individuals, payroll loans and credit cards showed good performance, despite the seasonality of the previous quarter that we usually experience, particularly in cards. Regarding payroll loans, we are advancing more rapidly compared to the market, we are expanding our market share, and the annual growth of 17% and 6% for the quarter is quite robust. In auto loans, we observed a more benign scenario for the entire market, and we are following this recovery. We maintained our prominent position in the segment with the market share that has already been mentioned. And it is important to note that, once again, our solid evolution in agribusiness, with a 39% growth over the year, is important for our strategy.

On slide 15, I outline some important elements of our performance in funding.

Over the past 12 months, we have seen a 10% increase compared to the previous year. Time deposits and tax-exempt bills, in particular, have shown the strongest growth. And, despite recent regulatory changes, we have managed to make progress with tax-exempt bills at a satisfactory pace. There may be other changes and challenges related to funding arising from these securities, but our strategy is quite clear.

Either way, we are advancing in the implementation of our growth strategy with the goal of attaining a greater mix in retail, as previously mentioned in our strategic outlook. Consequently, over the past 3 years, we have noticed a 2 percentage point increase in the ratio of individual to business clients. As stated, this is an evolution and a long-term marathon. Moreover, the loan-to-deposits ratio has been hovering around the best levels in our history, at approximately 94%.

Now, I would like to share details on the performance of fees. We have noted a minor quarterly contraction, which is due to seasonal factors that you are aware of. Conversely, we have seen a very positive expansion on a year-over-year basis, reaching a 13% growth. This stems from the credit resumption and increased customer transactionality. The credit expansion has played an important role in this rise in revenues, in line with loan operations.

We also saw a rise in turnover and card sales as already shown, with higher spending. In insurance, even when taking into account the quarterly seasonality, the performance was quite robust. This is propelled by the sale of new products and a drop in cancellations, in other words, a better year-on-year performance in the insurance business.

On the next slide, I will present details on our assets, more precisely, the quality of our assets. Disregarding the one-off effects that we had in the last quarter, allowance for loan losses remained stable in the quarter, without any indications of deterioration. This steadiness, along with the expansion of the portfolio, led to a drop in the cost of risk over 12 months by 70 basis points, and we concluded the quarter with a cost of risk of 3.8%. It's worth highlighting that the reduced volume of recoveries is due to a more stringent approach to recoveries, as we have been signaling, and more selective criteria for renegotiation.

Such policy also impacts the volume of the renegotiated loan portfolio, which is trending downwards, achieving 6% with a coverage increase to 54.3%. Lastly, NPL Formation experienced a minor drop, still influenced by the NPL of the renegotiated portfolios, and this effect persists as we advance in phasing out these portfolios and there is a bit of seasonality in the quarter, but it is largely under control.

Now, we will move on to the next slide and concentrate on the evolution of our NPL indicators. As previously noted by Mario, following a two-year span dedicated to adjustments, we are now operating with well-balanced lending and appropriately structured portfolios. In terms of the short-term indicator, although there has been no alteration in the overall indicator, we have witnessed, as you can observe, an improvement in individuals. This advancement was offset by business clients, with specific effects that also do not pose any concern for us. In the case of the long-term indicator, we saw a specific marginal fluctuation of 30 basis points in SMEs, but this is due to the renegotiated portfolio that I had already discussed in the previous quarter, which could show a slight fluctuation.

On the following slide, we will address expenses. We noted a 5% drop in expenses compared to the previous quarter. This drop was mainly due to the seasonality of administrative expenses and some that occurred at the end of the quarter. Personnel expenses were influenced, as you are aware, by the collective bargaining agreement, which had a 4.6% impact in 2023. But what is significant is that the optimization of our footprint has been key to supporting our expense control, and we will continue to pursue business expansion with a reduction in the cost to serve. So, it is quite important how we handle the entire matter of expenses, which is progressing in a highly satisfactory manner.

Given the effective management I have just discussed, coupled with the rise in revenues we witnessed this quarter, we have achieved a 3.3 percentage point improvement in our efficiency ratio, which now stands below 40%, a very positive development.

Next, we will discuss the results for the quarter and I will present our Income Statement. Over the year, we have seen a 14% increase in total revenues, fueled by net interest income and fees. We have managed to keep our Allowance Loan Losses and expenses in check, resulting in a profit of BRL 3 billion. This represents a 41% growth over 12 months. Profitability has improved, achieving a 14.1% ROAE, and we concluded the first quarter of 2024 with a solid balance sheet, as evidenced by our CET1.

In conclusion, the results achieved are aligned with our expectations. We are committed to building a more stable and sustainable base for our results, while focusing on the gradual resumption of our profitability. Thank you. I now turn it over to Mario for the closing remarks.

Mario Leão: Thank you, Gustavo. Well, great. To wrap up, allowing us time for a detailed Q&A at the level you desire, here are five key messages to reiterate. They are messages for the quarter, but they are messages that I wanted to communicate to you, investors, analysts, and the entire market, for the year and for our positioning going forward.

So, the first major message is that we possess, we believe in a steady increase in revenues, stemming from portfolio diversification, from new calibrated vintages, from a crystal clear strategy that we established way back, which we are adhering to in a very disciplined manner, free from surprises, without one-off events, devoid of abrupt shifts.

Therefore, we hold a positive view of this revenue growth, we expect to maintain the same positive momentum in both clients and markets, and, naturally, the entire strategy is geared towards this. Our cost of risk is continually improving and we believe that this will remain this way throughout the year. We are constantly striving for a healthier portfolio. As I stated, all the growth we have made in the strategic businesses I outlined has been executed with the same strictness we have used in the past few years. So, since 2022 we have been employing a good approach to lending for new clients and particularly for existing clients, and these same policies, this same approach is what we have been adhering to since then.

We continue to work diligently on growing in the business segments where we have chosen to expand, which does not imply uniform growth across all areas or customer bases, but we have selected certain businesses where we are looking to bring customers closer to foster principality, and these businesses have shown consistent growth, and we believe this trend will continue over the coming quarters and years.

We are taking a major step forward in our physical operation, or rather, our multichannel operation, our channel operation, by introducing the new positioning of the stores and indeed definitively integrating the stores into our multichannel model, which we call continuous conversation. Hence, we now have the store connected to the chat, connected to the app, all of this offering a continuous conversational experience for the customer, which, in our view, will lead to a huge leap in the relationship that customers maintain with us.

And obviously, our *Começa Agora* campaign marks the grand launch of our mass income segment offering, but it's not just about the mass income, it's about our overall bank positioning in relation to the market, our signature, our communication, our voice tone, our color, our campaigns, and of course, the tangible manifestation of all this in a much more powerful, simpler, and much more digital offering. We believe that in the years ahead this will draw in many more customers who are currently inactive, turning them into active ones, and non-customers who will want to become Santander customers, whether through the Free value proposition or other value propositions across different segments.

On that note, I pause, extend my thanks to everyone, and now we move on to the Q&A session. Camila, please.

Camila Stolf: Thank you, Mario. Thank you, Gustavo. We will now start the Q&A session. From this point forward, everyone will have the opportunity to address their queries. If you wish to ask a question, simply click on the hand icon located at the bottom of your screen. We will respond to these questions in the language in which they are asked. I kindly request each analyst to ask only one question, with the possibility of seeking clarification at the end so that everyone can participate.

Our first question comes from Daniel Vaz from Banco Safra. Hi, Daniel. Good morning.

Daniel Vaz: How are you guys? I wanted to first comment on the net inflow dynamics. We saw that in the AAA channel it was quite strong this quarter. The dynamics of inflow per advisor and you had an increase there of, if I'm not mistaken, BRL 5 billion in net inflow through this channel, so I think it's quite strong there in the quarter. And then, in Private Banking, it was a little below the last few quarters, so as we are experiencing a slightly more pessimistic market, how did you see these inflows, the differences? If you could comment a little on the nuances of these two, the AAA channel and the Private channel, it would be nice for us to understand a bit. Thank you.

Mario Leão: Great, Daniel, good morning. Thank you for your question and for participating. As a whole, when we look at our individual business overall, which encompasses Private Banking, we were quite pleased, indeed, with the quarter. As I stated earlier, we are, each quarter, here sharing with you and commenting throughout the quarter, we are witnessing the consolidation of a strategy that is akin to an ultramarathon, a theme spanning many years. Back in 2022, I mentioned that this is a topic of at least 5 years, of us focusing daily to reach a significantly different level than where we were back then. I believe we are making that stride. Thus, every quarter that I share with you the progress, I do so with immense satisfaction to see that we are, indeed, growing.

We have a competitive offering, in the best sense of the term. We have a proposal for very close coverage, a personalization, therefore, of contact, of offering and, obviously, a range of products that today is second to none. So, as a whole, the individual client side did extremely well. It did even better in retail, it's true. AAA is a major arm through which we attract retail funding, but we also have Select, which we refer to as a non-portfolio in AAA, which is also performing remarkably well. And we have the matter of funding beyond high income, Daniel, which is obviously becoming increasingly relevant.

Therefore, in this redesign of the middle income that I referred to, we will have a golden opportunity to significantly enhance our coverage of these clients who, as I stated, are in the millions. And our investment agenda will undoubtedly benefit. With the introduction of the Free offering, we genuinely hope to attract many more of these clients to us, or back to us. And that investment which is not long term, but rather a day-to-day investment, should also increasingly come our way. So, we are quite upbeat.

The Private Banking unit was less impactful or less powerful than it had been in some quarters last year, but nothing alarming. The Private unit, in my view, Daniel, perhaps struggled a bit more with the matter of bills, which is not a product exclusive to Private, but obviously the Private Banking clients, not just ours, but from Private Banks in general, used to consume the incentivized bills a lot. And with the issue of the grace period and the backings themselves, there is obviously a decline, and this might have slightly restrained the demand from Private clients, but nothing alarming. We have a commercial agenda at a different level in Private Banking. Last year, as I told the market, was a record year for us. So, we continued to grow, and this first quarter for me is not indicative of what we anticipate the average of the year to be.

Therefore, I am very positive. As a whole, the investment agenda for individual customers is well established here. And now, each quarter, each year, it's a matter of elevating Santander to the level I envision. Thank you.

Daniel Vaz: Just a quick follow-up on this. I think this part about the bills is very interesting, as we've also heard internally that there was a reacceleration this quarter. I think this was very much at a standstill in February, and then in March, we started hearing again from major market players in funding that these bills had regained some strength. If you look at your experience in March, April up to now, has this rebound actually occurred? This funding through bills?

Mario Leão: Indeed, I will not discuss April now, I'll touch on it shortly, but we indeed witnessed a dip that the entire market experienced, so for a few weeks, perhaps a month indeed the volume decreased significantly. I think that all issuers, Daniel, repositioned themselves, we were one of them, and indeed the volume has since rebounded. So there is a period of dip, a void in a way where the volumes dropped significantly. This proportionally impacted Private Banking more than retail individuals, who tend to invest in instruments in a more diversified manner. And I believe that both for bills and for the commercial activity itself, which obviously cannot rely on just one type of product, we will see a greater expansion from the second quarter onwards. So again, nothing to be concerned about, it was positive funding, which is good, and we will continue seeking more and more and also consolidating our ultra-high income or high net worth business, like our Private Banking. Thank you.

Daniel Vaz: That's clear. Thank you very much.

Camila Stolf: I will now bring in Mario Pierry from Bank of America. Hi, Mario. Welcome.

Mario Pierry: Good morning everyone, congratulations on the results. I would like to delve deeper into the market NII. We observed a positive figure after seven quarters of losses and the delta, comparing year on year, is nearly BRL 1.5 billion in earnings. I wanted to understand how you perceive the evolution of this line, particularly if we have a scenario where the Selic cut is slightly more gradual than projected at the start of the year. Do you think it's possible, I'm trying to understand the trend, how you see this line and if this shift in the Selic scenario would have any impact, whether positive or negative? Thank you.

Mario Leão: That's great, I can start and then I'll hand it over to Gustavo. Thank you, Mario, for participating. Throughout these negative quarters, you mentioned seven, we have also been communicating with you all during the disclosures and subsequent meetings that we had a clear roadmap for this market NII line. I mentioned at the beginning that we historically have been highly reliant on the market NII line, and those of you who have been following the bank for a while are aware of this. From 2021 to 2022, you recall the magnitude of the decline we experienced, BRL 10 billion just in this line. Therefore, we have obviously been repricing the portfolio over these years following this roadmap. Part of the improvement stems from the repricing of our own prefixed portfolio from our retail and Consumer Finance operations, and a portion of this comes from the reduction in the Selic rate itself, which lowers our funding cost, from the standpoint of funding for this prefixed portfolio that we manage.

So, attaining a positive figure this year is also on track, and I believe it's not a major surprise to you, it's the achievement of something we had in a way suggested or pointed out. And we anticipate that this line will continue to behave well over the year. Does the Selic rate impact it? It does in part and the pre-curve itself also impacts it in part. The increase in the pre-curve leads to a more expensive starting point for the pricing of our prefixed Consumer Finance and retail individual portfolio.

Thus, in practice, we need to raise prices for the final customer if we want to maintain the same level of profitability, and we are aiming to maintain the same level of profitability. Therefore, if we are in a situation where we cannot also adjust at the end of the prefixed loan portfolio and have to sacrifice some of the spread, of course, the effect of a higher pre-curve can impact the profitability of the portfolio. But we have not observed this thus far. And regarding the cost of carrying our prefixed portfolio from a higher level, a slower decline in the Selic rate causes us to improve the result of this portion, which is the portion that funds the prefixed loan portfolio that we carry, as all major banks do, at a slower pace.

So, there could indeed be some impact, but considering that we do not foresee a shift in direction, we truly do not anticipate the Selic to begin increasing again as some of the market has started to believe. We remain constructive regarding the decline in interest rates and that the rates will drop to single digits within this year, and we do not think that they will begin to increase again next year. We are not necessarily concerned that we will experience a reversal of this trend, but I will let Gustavo provide further details.

Gustavo Alejo: Well, Mario, it's good to speak with you. That's exactly right, the roadmap has not been altered, so we are proceeding with the same plan. A slightly faster or slower pace in the Selic cut could mean that it's the same roadmap, but the distribution of the plan over the quarters might be somewhat different, but indeed the roadmap has not changed for this reason. So even if the Selic isn't decreasing at the anticipated speed, we also have the benefit of the pre-curve which has a positive slope and given that we set up the portfolio on a positive slope of the pre-curve, this is well resolved. Thus, once again, there is no change in the plan, the roadmap is clear to us, and perhaps we may have a distribution of this plan across the quarters, ok?

Mario Pierry: That's great, very clear. Thank you very much.

Camila Stolf: The next question comes from Eduardo Rosman from Banco BTG. Hello, Rosman. Good morning.

Eduardo Rosman: Hi, good morning, congratulations on the results. I have a question here about principality. I believe all banks have been talking a lot about principality, that this is the name of the game and we also saw during the presentation the significance of payrolls for Santander's customer loyalty. Thus, I wanted a little more detail on the strategy here. How do you see this stronghold in a scenario of Open Finance evolving, which is one of the Central Bank's goals, and also with this potential new e-Social platform, which some banks are quite enthusiastic about, as it could help to unlock private payroll loans? So, I wanted to understand how you view Santander's positioning here in payrolls. How to go on the offense and not just play defense in a scenario where payrolls could potentially lose some value in the future? Thank you.

Mario Leão: Good, Rosman, thank you, great question. We continue to strongly believe in the importance of payrolls. Santander is one of the leading banks in payrolls, you are all aware of this, and we are very pleased with this stance. We have no intention of relinquishing it, which doesn't imply that it makes sense for us to pay the bid for every payroll. We are extremely disciplined in assessing the value of the payrolls, and the level of profitability we can extract from them, but it remains a pillar and we don't foresee this changing over the coming years.

It's true that the elements that could potentially detract or pose challenges to a strategy of paying per payroll to acquire new customers and gain principality through the payroll are increasing over time, but we actually see Open Finance as a highly positive agenda as it also presents an opportunity for us. It is not necessarily intended to take value away from incumbent banks or from Santander in our view, in my opinion, it is intended to add value to Santander, provided we adopt the right approach and see it positively. You asked if we should adopt an offensive rather than a defensive stance, this is the stance that I assure you we are also upholding, every attacker has to defend but we are maintaining the mindset of a net winner and not of a net loser here. So, how do we do that? We do that through our offering.

The payroll is a vehicle through which I gain access to a client base, but the payroll alone provides very little. It ensures an account opening and potentially a salary account because that's how it works, but I'm not interested in the mechanical aspect of the payroll, Rosman, I'm interested in the aspect that truly enables me to focus on principality. So how do I actually benefit from the vehicle that the payroll provides me, how do I achieve the principality that genuinely shifts the game and obviously brings profitability, the ROAE, the bottom line that you all want us to generate? Through the offering. And the offering comprises a series of elements, the condensed version of this, we can elaborate more later, but the condensed version is this: I must be able to segment extremely well, I must comprehend the blocks, and here it's not just about referring to middle income as a single thing, middle income is probably comprised of 6, 8, 10 different clusters.

The high-income segment also has distinct clusters. We have high-income borrowers, who, as I've mentioned, account for nearly 30% of our retail loan portfolio for individuals, and there's nothing wrong with that, as it has an extremely high loss absorption. We have a highly profitable portfolio in this area and my aim is to further expand in the high-income loan market. There are also high-income investors and those high-income individuals who are investors who do not touch their assets and only use the credit card we offer in partnership with American Airlines and others. Therefore, even within the high-income segment, there are multiple clusters, and this is even more so in the low-income segment.

Hence, the ability to segment or sub-segment is critically important, and from this sub-segmentation, increasingly focusing on the individual, not just the cluster, which I call hyper-personalization, which, indeed, a lot of people have been talking about, but I would argue that we are advancing considerably in completely reengineering our CRM model, completely redesigning our loan model and policy systems. We can provide more details on this later. In practice, with the ability to sub-segment and personalize, we can understand which offering, at what time, through which channel, and in which context I need to present to that customer. I think this is what changes the game.

So, payroll is a significant channel from which I have a large customer base, and there are many millions of payroll customers that we have here. But if I do well in sub-segmentation and hyper-personalization, and I offer exactly what that customer needs in the context they need it, with the language and access that I call multichannel conversation with this customer, then we have the chance to win the game, and that's what we're working on.

That's why we're reintroducing the mass income segment offering, for instance, that's why we previously reintroduced the high-income offering, that's why I'm now platforming my middle-income segment. So, all the pieces are fundamentally connected and it's the strategy that I've been discussing with you and other analysts for a few years now, and we're putting the pieces into play in the sequence that we can, some even in parallel. And all of this converging for us to truly have a real opportunity to achieve principality, with payroll as one of the main vehicles but not the only one. I hope I've been able to answer your question here.

Eduardo Rosman: No, excellent, thank you very much.

Mario Leão: Thank you, Rosman. Thank you for participating.

Camila Stolf: We will now turn to Thiago Batista from UBS. Hi, Thiago.

Thiago Batista: Hello, Camila. Thank you for the opportunity. Hi, Mario. Hi, Gustavo. I wanted to focus a bit on Select. The growth you are showing in this segment is impressive, 1.4 million customers. You've already stated, Mario, that you aim to achieve 2 million customers. This will be slightly above the market leader. This portfolio, as you've shown, already represents almost 30% of loans and less than 5% of Santander's active customers are Select clients. So, this performance is astonishing. My question here, first, what was the most significant change you saw in this segment to explain this improvement? And a second point here, the average ticket of this portfolio in this segment is around BRL 50,000 of credit per customer. Obviously, not all customers take out loans, but the point here is which segment are you seeing this superior growth within Select? Which product is driving such a strong portfolio growth?

Mario Leão: Great, Thiago, thank you. Thank you for participating. Select, in line with what I just answered to Rosman, regarding our ability to segment, I would say that the first major customer cluster that we fully embraced was back in 2022. I first mentioned this during our third quarter earnings announcement. We essentially relaunched in August/September of 2022, so just over a year and a half ago, we relaunched Select as a whole. At that time, we had been offering Select in Brazil for 9 years. Last year, we marked our 10th anniversary and, for the first time, we ran a campaign. Of course, it's not just about the campaign itself, but through it, we democratized Select. What do I mean by this? We stopped accepting Select customers based on income or investment. We opened up Select, essentially, to anyone willing to pay the monthly fee we charge, obviously before the customer is able to waive it.

In this democratization process, Thiago, we fundamentally open Select's doors to clients who desire an unparalleled service. What is this unparalleled service? We also introduced this concept back then. It was the first segment where we truly started to practice multichannel communication in a very thorough and precise manner, which we now also want to implement for this base that is several times larger, which is the mass market base. So, there, we always had the stores, whether Select or individual stores or store-in-store, meaning stores within stores, which are very cool spaces that had nothing wrong, but we made those spaces even more integrated with a 24/7 personal service.

Therefore, the Select customer, they dial, if they wish to dial, and some still prefer to dial, they are directed straight to a unit that bypasses the URA, meaning, they are connected directly to a human operator who speaks to them. Obviously, we also have a chat with an impeccable chatbot, but the human chat is also readily available. Thus, the Select customer, they understand that they have a continuous multichannel conversational capability. They have a human always ready to assist them, him or her. And furthermore, we introduce an element that we certainly did not have before, Thiago, which is the element for the Select investor customer, the element of financial advisory.

So, when we bring in financial advisory, which is not just the human element of AAA, but also a far more advanced investment portal, we, up until 2021, start of 2022, still had a deficit, in a sense, in terms of the digital experience for the investor client. We have taken a big leap. We are about to, we are on a countdown, in weeks we will launch the new version of our, what we call, investment portal, already a lot more sophisticated. Thus, we are providing a much more comprehensive digital experience for the investor client.

We deliver human service from AAA, as I've already noted, which you are all aware of, with the lowest load in the industry and, hence, the best coverage ability. But, alongside this, for our investor clients, we provide a multichannel, human, 24/7 offering, with stores that are well-utilized and many customers love visiting, while others do not, but they all receive the same level of service. Consequently, with this, we have a distinguishing feature that we have been working on.

We have also been conducting, of course, an observation of our clients from all other segments, those that we identify as Select clients and historically, because they were initially Van Gogh or some were even in our low-income segment, which we refer to as special. We also transition these clients to Select. Therefore, there is indeed an aspect of rearranging the portfolio, but this is legitimate, it is natural, and it is correct.

Yet, in this year and a half, Thiago, to wrap up, we are experiencing for the first time a significant organic increase in customers. So, this number that you see rising, it has a crucial component of organic customer growth, those who chose to be Select customers, be it those who originated from payrolls, which is again the response I provided here to Rosman, where we have been doing an increasingly good job on payrolls and sub-segmenting the most senior executives of the companies, and persuading them to pick Santander as their primary bank and not the bank they previously had, be they traditional or new ones that target high income.

In terms of products, there isn't a particular product that you inquired about as well. We have indeed seen substantial growth in mortgage loans. We seldom talk about mortgages, unjustly so, as our performance in this segment has been considerably better than the market average. We managed to increase our market share last year. We were among the few that experienced growth, albeit slight, while many others saw a contraction. In the first quarter of this year, our origination performance in mortgage loans was quite robust.

Thus, in the areas of mortgage and payroll loans, and certainly for high-income clients as well, we have been successful in distinguishing ourselves across a range of different products. There isn't a silver bullet, there never is, but we have been realizing steady growth and that portfolio, which we anticipate will grow, is a reflection of this.

Thiago Batista: Quite clear. Thanks, Mario.

Mario Leão: Thank you, Thiago.

Camila Stolf: The next question comes from Eduardo Nishio from Genial. Hello, Nishio. Good morning. It seems we have a connection issue here. We will actually proceed with Yuri Fernandes from JP Morgan. My apologies, Yuri. Good morning.

Yuri Fernandes: Good morning, Camila. Congratulations, Mario, Gustavo, on the quarter. Mario Pierry has already discussed the market NII a bit. I wanted to shift a little to the product NII, the customer NII. We noticed a significant improvement in the spread here. There were some reclassifications, as you've already highlighted, so our historical data isn't extensive enough to look back before 2023. So, I wanted your help here to understand how to think about this line. I believe from what you're saying, the impression I get is that this margin should keep improving. I wanted to confirm this, but to what extent should this margin improve? Should we revert to the quarters of 2022, I understand it's not the same base, but was the product NII typically higher or not? Should it be something more akin to what we observed at the start of 2023? If you could assist us in understanding this margin, which involves mix, and a lot of things you've been discussing about funding, I think it would help us not to be so adrift here regarding your spread improvement. Thank you.

Mario Leão: I'll start and then hand it over to Gustavo here. Yuri, a very good question. And addressing the point you raised, the reclassifications here. We are responding to a demand. The first time I met with analysts, at least the ones from Brazil, they said, "you need to look at the other operating income/expenses." We looked at the other operating income/expenses, so we conducted an initial reclassification. These are accurate classifications. We didn't do it to enhance or degrade any particular line. We wanted to actually place things in the most accurate spots, not that they were inaccurate before, but we wanted to do this. Therefore, the first step of reducing the other operating income/expenses, in response to a demand of yours. We anticipate making another significant one at the turn of the next year. In whatever way we can assist, obviously, you analysts who delve into our figures, to think about the bank even before that, we will be pleased to do it.

However, to respond accurately here, Yuri, we do, in fact, have a portfolio today, in 2024, I would say, from this point forward, markedly different from the portfolio that we had in 2022. So, you referenced 2022. In 2022, we still had a rather large carry over effect from the portfolio we built during that major growth cycle that concluded in 2021. And then, at the year's turn, which coincided with me taking over the bank, a coincidence, we implemented a significant slowdown that you are already familiar with and I don't need to reiterate. Hence, in 2022, we initiated a portfolio redesign, but still with a carry over effect on the top line and a quite clear one. And that's why the top line, our NII line, for 6 or 7 consecutive quarters, consistently decreased and began to rise again around the third quarter of last year. And then we had a flattish fourth quarter and now, indeed, it begins to grow with a bit more strength.

How do I respond to your question? Block A: funding NII. This tends to decline, in fact, because of the Selic rate. The Selic rate will drop a little slower, thus the detracting factor of this line slightly prolongs the time. But we already know this, as you are all aware. So, we are working to offset this through funding, with volume and mix.

The funding mix, complemented by the float funds that stay in the account, which we and all banks use as profitability instruments to ensure a healthy margin. Of course, we don't want to depend only on float funds. So, we need to bring in investor clients. That’s why there is an entire investment agenda, Select and beyond. Thus, we plan to counterbalance the Selic drop with volume and mix. We anticipate a positive performance here, despite the downward pressure from the Selic rate.

Understanding the challenge we have with the funding NII, we will continue to excel and with even more strength, certainly, in the active part, the credit part and the expanded loan portfolio. Here, we are actually seeking, Yuri, the same type of mix that we are building. So, should you expect an average spread level similar to what we had previously, where the clean portfolio, the lower-income portfolio, the ratings, on our scale of 1 to 10, the ratings 5, 6, 7, were much more prevalent than they are today? No, because we do not have the same mix, we do not wish to have the same mix. We are working a little with clients rated 8 and a lot with clients rated 9 and 10, just so you have an idea. Each bank has its own scale, but you can get a sense of where we are cutting. So we want to have clean exposure with clients rated 9 and 10 and even collateralized, as in the Consumer Finance unit, as in payroll loans, we also want to have customers with the highest ratings.

Therefore, our average rating has surely increased a few points from 2021/2022 to where we are today. Consequently, we should not anticipate the same level of gross spread on the top line, but clearly we should expect the spread level net of loan loss provisions to improve over time, which I think is what we are showing. This does not necessarily happen in the same quarter, because initially you build the portfolio, you are assimilating the portfolio, we are making fewer deals, we are accounting more the cases that we see we will not be able to recover in time and Gustavo covered this a bit, he can cover more. So, timewise it's not all exactly in the same quarter, but the direction of an increasingly healthier top line net of the credit cost and obviously the phasing out of the previous portfolio, the legacy portfolio, also flowing this will slowly create an appetite in this credit line, let's call it that, which we believe to have demonstrated already this quarter and will continue to demonstrate.

So, we are optimistic, in summary, about how this line performs over the year even though the interbank rate ("CDI") is putting downward pressure on one side, we offset with volume and price, and on the side of assets we will continue to grow but with the same type of product mix and with the same type of customer portfolio that we have been pursuing. Gustavo, I don't know if you would like to add anything.

Gustavo Alejo: Yuri, how are you? Precisely that, so there's no comparability between the previous portfolio and the current one. We will maintain the same dynamics with the current portfolio. So, we continue with the same ratings, with the same product composition by customer clusters. Thus, with the same profile for each micro portfolio as I call it. We are advancing significantly in personal loans with some type of guarantee. We had a larger volume with clean personal loans. So, we effectively change the entire composition of our portfolio, knowing that the CDI falls, we make composition on funding, but also make the composition on the asset side to balance it out. But what we are aiming for and seeking is precisely that the net spread becomes increasingly larger and that it opens up over time. So, this is somewhat the dynamic that we expect.

Yuri Fernandes: Perfect. Thanks, Gustavo. Thanks, Mario. Best of luck with your results, congratulations again.

Mario Leão: Thank you.

Camila Stolf: We now have Eduardo Nishio from Genial with us. Hello, Nishio. Good morning.

Eduardo Nishio: Hello, Camila. Good morning, everyone. Good morning, Mario, Gustavo. Congratulations on the results. I would like to explore your retail segment a bit more, specifically your mass-income segment strategy. Congratulations on the launch. The retail segment has undergone significant changes in this cycle, and you have introduced a new, redesigned strategy. I would like you to elaborate a bit more on the profitability you anticipate, what happened in this cycle, and also discuss a bit more about your target market, whether it's open sea, low-income, etc. In essence, your perspective on the mass market and retail. Thank you.

Mario Leão: Great, Eduardo. Thank you. This provides a good opportunity for us to discuss the topic of mass income segment in more detail. I will try to be concise here. The main themes are: we recognize that the customer has evolved, evolved in the type of demand, in the type of relationship they want to establish, in the type of principality they are willing to offer. The customer today has at least five active accounts on average and nearly four active cards, per customer. Therefore, the way the customer defines principality has changed a lot over these years and hence the ability of each bank, whether digital or incumbent, it doesn't matter, we are all digital, to work to gain if not all, a significant portion of the customer's principality also had to change significantly. So this is very clear. We acknowledge this, and so does the market.

We also recognize that the way we, and possibly the entire market, approached credit for this mass market audience needed to evolve. We, between 2020 and 2021, and the market as a whole, possibly extended credit beyond what these customers were capable of absorbing, resulting in a significantly higher cost of risk over the following years for all banks in the market. This means we have tested and learned the hard way about the elasticity of low-income earners, Eduardo. Therefore, what we bring as a lesson to this new offering is a much more refined and accurate understanding of the elasticity of this audience's income capacity, which is obviously much less elastic than middle and high income customers, and business customers as well.

Thus, with a greatly improved and more nuanced comprehension of what fits into the budget of this low-income segment, and hence, the extent of exposure we can afford with each customer, and the exposure that is worthwhile with that customer, which largely depends on whether I have that customer's transactionality or not, because it's pointless for me to be the one providing even a small loan to that customer, if they are going to use my credit to settle with another bank, leaving me with adverse selection.

Fundamentally, I would say that our maturation as management here entails gaining a deeper understanding of the context, a better comprehension of the limited elasticity that low-income customers have, and a more profound understanding of the need for this client to be here within our bank, transacting with us and selecting us as their primary bank, or moving towards choosing us as their primary bank, so that we can truly have a better chance at using that limited income to repay loans, to pay for services, and so on.

Therefore, the context is this, it is the context that the whole market undoubtedly recognizes today, so there is no major confidential information here. How do we tackle this in a different way? We tackle it with a starting point that is a much, much, much simpler offering than any other offering we have ever made. An offering that is completely free indeed. We say in the video you've watched "free, no asterisks." This is extremely important. It's not that we had asterisks before, but all offerings, historically, from incumbents, and digital players rightly challenged and in some ways even criticized the incumbents for this, always had conditions. So we wanted to make an offering truly without conditions, so we provide an account and a card that is free for life, genuinely free forever.

Well, where will we derive profitability from? Clearly, by attracting the customer with an offering that is not only free for life but also provides unlimited withdrawals, which is beneficial for those who withdraw cash. This demographic still has a significant use of cash for a relevant period, so we believe that unlimited withdrawals is an appealing proposal. We also introduced the element of 10 interest-free days, which is very robust at Santander, linked to a strong PIX key. So, for the customer who sets a strong PIX key here, either the mobile phone or the CPF, we will provide the 10 interest-free days which is obviously a huge differentiating factor. Therefore, by combining these elements, either of equalization or differentiation, we will deliver an extremely simple, digital experience, with well-integrated human conversation and stores as a convenience element, as I mentioned earlier.

Hence, we believe that the new *Começa Agora* offering, with *Começa Agora* being our comprehensive positioning, the new free offering, Eduardo, will fundamentally result in a catch-up in relation to what we were lacking and a positive distinguishing factor relatively to what we already had, and we bundle this in an extremely straightforward and simple manner to the customer. Thus, we believe that going forward we will begin to re-engage this customer who was here but was inactive. To give you an idea, we have roughly 30 million inactive customers, our total base is around 60 million and our active base is slightly above 30. Therefore, in practice, half of our customers are inactive, so there's a great deal of what we're aiming for here, which is to activate inactive customers, responding to this part of your question.

There is, of course, an element of open sea capture, but it's not the open sea that we navigated in 2021 and possibly a significant portion of the market. It's an open sea that is proportionally much smaller, much more qualified, with much more information, much more intelligence in data usage, to understand who this unique customer is. So, we are much more confident today in looking at this open sea customer, even though they are proportionally fewer than in the past, but a large part here will be customers who are already in our base and are either inactive or active but not as satisfied with the offering and were slowly leaving and transferring their principality to others. We aim to regain these customers, reactivate the inactive ones, and indeed win new customers, but with a significant distinction between what we want and what we don't want.

Eduardo Nishio: Perfect, thank you.

Mario Leão: Thank you.

Camila Stolf: The next question comes from Brian Flores from Citibank. Hello, Brian.

Brian Flores: Hello, Camila, and thank you very much for the opportunity to ask questions. Building on Yuri and Mario's question about the cost of risk, how should we think about this as a percentage of the portfolio and how does it connect with the renegotiation strategy, which seems to be running at lower levels now? Thank you very much.

Mario Leão: Gustavo.

Gustavo Alejo: I will start with the second part, so we have already said that we have altered our renegotiation strategy, thus we are being much more assertive in renegotiating and demanding formats with more payment for us to proceed. Therefore, the profile of how we renegotiate changes. This results in, as I had previously mentioned, a smaller renegotiated portfolio and we might see some volatility in some portfolios that I had noted in the last quarter. So the renegotiation dynamics remain much more selective and the renegotiated portfolio over time will be reduced precisely also due to the effect of us having the old portfolios being phased out, as Mario stated. This is the first part.

The cost of risk, considering our growth pace and the credit discipline we uphold, and without any changes in the risk profile, is showing a positive trend towards a reduction. This will somewhat depend on how we grow and where we grow, but we have already observed a significant evolution in the past 12 months and we could see future progress, although this also depends on how much we advance in our portfolios, as we have a high level of confidence in credit performance since all our new and upcoming vintages are performing exactly as anticipated. So, there are no surprises with the new vintages, also because we have not altered the credit profile for several quarters.

Brian Flores: Perfect, thank you.

Mario Leão: Thank you.

Camila Stolf: We will now switch to English with Tito Labarta from Goldman Sachs. Good morning, Tito.

Tito Labarta: Hi, good morning Camila, good morning everyone. Thank you for the call and taking my question. Actually, a bit of a follow-up to Brian's question on the cost of risk, but more on the asset quality side. We saw the NPLs were still sort of flattish in the quarter. I know there may be some seasonality in the first quarter, but SME NPLs did go up a little bit. Just how are you thinking about asset quality from here? I mean, it seems that we're past the worst of it, particularly if your provisioning levels are coming down, but any risk to that? How do you think asset quality can evolve from here? Thank you.

Mario Leão: Hi, Tito. Thank you for participating. So, just kicking off, and then I'll hand it over to Gustavo. So the broad message, taking the opportunity of your question is we are very comfortable with the portfolio we are building. The portfolio we are building for the last two years, I'll say, and obviously with the benefit of having now two-year-old vintages, one-year-old vintages, six-months-old vintages. With all that, we can backtest, and we are continuously doing that, and we're doing that every time more and more, more precisely. And taking the small adjustment decisions much faster than we did before. So all that points to the direction that we are managing with better tools, with much more modern policies and models, and the vintages are behaving well on average. So yes, there's seasonality, there's the elements that you see in the presentation, they relate much more to the digestion of the older vintages, which we are embracing differently, for a year already, in terms of the renegotiations than we did before. So Gustavo can comment better, but the direction I wanted to share with you is that, yes, we're very comfortable with the way the portfolio is behaving, the direction we're taking, and how the new vintages since 2022, by the way, they're behaving. So with that, Gustavo, please.

Gustavo Alejo: Yes, exactly that, Tito. There are no changes. I've mentioned last quarter that potentially we'll see some volatility in the overs, but this is totally related to the old vintages and the old portfolio. So everything is under control. So in terms of the future and credit quality, everything is really under control.

Tito Labarta: Ok, great. Thanks, Mario and Gustavo.

Mario Leão: Thanks, Tito.

Camila Stolf: We are now switching back to Portuguese with Gustavo Schroden from Bradesco BBI. Good morning, Schroden.

Gustavo Schroden: Good morning, Camila. Thank you. Good morning, Mario, Gustavo. Congratulations on the results, very strong indeed. I wanted to touch on something, I believe a part of the equation is missing. The NII has been extensively discussed, we've talked about segmentation, product, mix, but I wanted to talk a bit about portfolio growth. I think it's a significant component for NII. The portfolio has grown 5% year on year, I wanted to understand, is there room to accelerate? Are we likely to see this portfolio growth speeding up over the coming quarters, do you think we can get close to between 8% and 10%? Do you think that's a reasonable figure for us to consider in terms of portfolio growth and also discuss a bit about the mix that we should, not in segmentation, but anyway, we see strong growth concentrated in payroll, auto loans... is this the ongoing trend?

And if I may, I believe portfolio growth could potentially leverage another aspect, which is profitability. We have seen substantial progress in ROAE, rising from 10%, 11% to 14%. Do you think it's possible to end the year with ROAE closer to what it was in the recent past, before the deterioration in asset quality in the overall system that caused everyone to hold back on portfolio growth, increase in NPL, treasury impact? Anyway, I would like to know if we can start dreaming of an ROAE closer to 18%, 20% again? Obviously, I understand the constraints, I'm not asking for guidance, but just wondering if this is the direction we're heading. Thank you.

Mario Leão: Thanks, Gustavo. It's great to have you here. I'll begin with the subject of the portfolio and then I'll address profitability. As I stated and Gustavo later reinforced, we are expanding precisely in the portfolios we aimed to grow. We don't have a goal here to grow by 10%, 8%, 12%, the same for everyone, it wouldn't be the intelligent way to run the bank and it's not what you expect from us either. Therefore, we select the businesses where we want to either consolidate leadership or gain market share, but gain market share with quality, never to gain market share without profitability and at the expense of the cost of risk 6, 12, 18 years or months from now. You're not seeing us grow in this manner.

Thus, we pick certain businesses and provide more details here in the presentation to show that we have chosen to expand here and are growing our card portfolio. We spoke little about cards for a year and a half as we were in a slowdown mode, and since the third quarter, we have been discussing more, albeit still somewhat timidly. Now, we will begin to speak more as we start to consolidate our strategy to resume growth in cards.

Therefore, I would say that when we think about the growth magnitude, naturally, we will not provide any guidance, Gustavo, as you are aware, but we anticipate growing as much as the market average projected by FEBRABAN. We actually expect to be able to expand more in certain businesses and likely deliver more growth than the market. So, overall, we would like to grow at or above the pace the market is expecting to grow. However, once again, this will not be a linear process, it will not apply to all businesses and it will not apply to all segments.

But we are adequately positioned in several segments, particularly in the retail world, individual customers, business customers, and also in Consumer Finance, giving us a fair degree of confidence that in these major businesses which are, of course, businesses with a higher level of profitability, if we execute well and I genuinely believe that we are executing well, we have all the potential to achieve growth here that should be equal to or outpace market growth.

In the corporate segment, I won't tell you the same thing because, as I previously stated and later reinforced by Gustavo, we will strive, as with everything actually, for tremendous discipline in terms of profitability. Hence, wherever I can secure marginal ROAEs, in that operation, which are positive and yield economic profit exceeding our cost of equity, we, on average, if the credit risk is favorable, we will undertake it. We will look at the operation, we will assess the cross-sell potential of that operation. The wholesale operation, naturally, has extensive cross-sell in services, mandates, and so forth. Therefore, we will always view it in a way from a client standpoint, but there will be instances where even from a client standpoint it won't make sense to proceed and we will turn, as I mentioned, into a distributor and not so much a credit holder.

Thus, we are not in a race here, with the mindset of "I need to grow by 8%, 10% or 5%." Up to this point in the year, we have seen a slight decrease, but it is not a concern at all because the business itself is earning more money than it did in the previous quarter and the previous year. So, we are achieving quite good profitability in our wholesale operation for corporate clients. Therefore, we may grow less than the market here, but even before it happens, I'm not saying it will, but if it does occur due to a very strict capital discipline, we will counterbalance this with growth and also with capital discipline in other operations as we demonstrated in the first quarter.

So, translating all of this into profitability. Well, considering that I will be disciplined in wholesale and only conduct operations that are ROAE accretive, and given that my retail operations, individual, business, and Consumer Finance are operations with rather high profitability, of course, provided that we know how to choose the right customers, the right products, we anticipate that the ROAE recovery that you mentioned, which was a good recovery, will continue gradually over time.

What are we aiming for, without providing guidance? We are looking to consolidate in the mid-teens, then consolidate in the mid to high-teens, and then we will seek to return, at some point, to the very high-teens or 20s and, obviously, we are not at this level in the short term, but we are redesigning the operation, executing a highly disciplined strategy to be able to aspire to this.

In closing, what I want to tell you is that the quality of the portfolio that is generating this ROAE, and which will generate the ROAE of the next quarter and the quarter after that, is of a markedly different quality, being much more diversified and therefore, sustainable. So, our focus is less on the pace at which I raise the ROAE by 1, 2, 3 points, and more on the robustness with which I deliver this higher ROAE, to enable us to aim for the next leap and so forth.

Gustavo Schroden: Perfect, very clear. Thanks and congratulations again.

Mario Leão: Thank you, Gustavo.

Camila Stolf: I would like to thank you all for being with us this morning. Following this video conference, myself and the entire Investor Relations team at Santander will be available to clarify any remaining questions. Thank you very much, have a great day, and see you next time.