Camila Stolf: Good morning. I am Camila Stolf, Head of Investor Relations and Market Intelligence at Santander Brasil. Thank you for joining us this morning for our second quarter 2023 earnings conference call. 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 talk about the main themes of the quarter and the strategies that will drive our growth over the coming quarters and in 2024. Then, our CFO, Gustavo Alejo, will provide a detailed analysis of our performance and results for the quarter. Lastly, we will host a Q&A session, during which analysts will be able to interact directly with our leadership.

Before we begin, I would like to give some instructions to ensure that you can make the most of our meeting today. For those watching us, there are three audio options on the screen. All content in Portuguese, all content in English, or in the original audio. The first two options feature simultaneous translation. To choose this option, simply click at the bottom center of your screen.

To ask a question during the Q&A session, simply click on the hand icon located at the bottom of your screen. The questions will be answered in the language they are asked, whether in Portuguese or English, with simultaneous translation available in both cases, or the original audio option.

The presentation we will be making today is available for download on our IR website. Now, I hand it over to Mario Leão to start the presentation. Mario, please, you may proceed.

Mario Leão: Thank you, Camila. Good morning, everyone. Thank you for joining us for our second quarter earnings conference call. I would like to start by highlighting the performance and resilience of our net interest income, particularly in a context where we still face pressure on revenues, given the correct decision to tighten lending 18 months ago and the focus on customers with the highest ratings and more collateralized products.

We expect this positive trend that we are showing again to persist and intensify over the next few quarters as we regain our risk appetite, always choosing the right products and customers to expand. This performance is a direct result of the evolution of our market NII as well, reflecting the continued repricing of our commercial portfolio and the substantial increase in volumes, particularly in liabilities. We will elaborate on these points later in our presentation.

We continue to demonstrate good asset quality, given the continued positive performance of the new vintages, which gives us the ability to continue reigniting growth in the business lines that we have defined as strategic. In addition, we had some non-recurring items during the quarter, which had a net neutral impact on our results, as we will detail throughout this presentation.

Thus, we ended the quarter with a net profit of R$ 2.3 billion, which means a quarter-over-quarter increase of 8% and corresponds to an ROAE slightly above 11%. For 2023, our strategic priority remains focused on maximizing the profitability of our customer base through greater loyalty, and in this sense, a few examples are our high-income segment, Select, and the entire business customer segment, which will play an even more important role in our portfolio.

Furthermore, we remain steadfast in our commitment to expand what we call strategic businesses, leveraging a complete ecosystem with numerous cross-selling opportunities and seeking to meet the demands of our customers throughout the consumption cycle. And this expansion will be sustained by our ability to innovate and use data, generating an increase in productivity and greater operational efficiency, enabling high-quality and increasingly assertive and effective customer service, with an obsessive view regarding our customers.

On the next slide, slide 5, we detail our strategy further. Today, Santander is already what we like to call a digital bank with branches and this is consistent with the vision of the Santander Group as a whole, Digital Bank with Branches, with an aligned strategy and increasingly focused on two major pillars: multichannel and principality.

We have dedicated the last several years to digitizing our ecosystem with a lot of focus and discipline, capturing not only important efficiencies but also maintaining a strong and clear brand strategy for Santander: to be the best consumer company, being where the customer prefers, in the digital realm, in physical stores, whether ours or partners', such as Webmotors and Consumer Finance. Our focus is to provide differentiated service wherever, however, and whenever the customer prefers. Through this multichannel digital ecosystem, we offer a wide range of products and services designed to meet the needs of each of our customers.

We have made significant progress in the massive use of data. We have a digital system that provides an enriched flow which, combined with our extensive data processing capacity, allows us to shape the best journey and offering for customers in pursuit of their principality. These touchpoints enable us to use a significant number of variables to support our decision-making processes, from lending to credit recovery.

As an example of this ecosystem, we can mention the 32 million hits per month on the WebMotors and Consumer Finance portal, and the 10 million hits a month on Esfera, Sim, emdia, and Return, which are all part of our broad Santander ecosystem.

And the use of deep learning within our organization is nothing new either. To illustrate, we can mention speech-to-text and natural language processing in telephone calls on our remote channel, which has produced excellent results for the credit recovery business on the chatbot, with a resolution rate of 73%, and we are already making great strides with generative artificial intelligence to support our customer service teams.

Slide 6, the next slide, highlights a few metrics that reinforce our customer-centric strategy and pursuit of principality, underscoring our focus on improving the customer experience and satisfaction, always. This theme is our obsession, and we will increasingly share with the market how we are addressing this topic. Through a more assertive approach to customer acquisition, we have managed to grow our customer base by 13% in just 12 months, and this growth has been sustainable.

It is worth noting that most of these new customers were acquired within our digital ecosystem, resulting in a higher proportion of qualified customers. A crucial indicator of our success is the number of loyal customers, defined as those who have six or more products, a high bar, and who currently represent half of our active account holders. Our goal is to further expand this proportion while increasing our base of active customers who are also account holders. To this end, we are investing in enhancing our CRM and prioritizing hyper-personalization.

Moreover, we are continuously refining our value proposition through outstanding customer service and a wide variety of products and services, including our loyalty program, Esfera, which doesn't stop growing, and our investment platform, AAA. These efforts have yielded very positive results in terms of customer loyalty, with revenue per loyal customer increasing by 12% over the past two years.

When it comes to customer satisfaction - I would like to stress that - we are fully committed to providing the highest quality service. As proof of this commitment, we have seen significant improvements in our Net Promoter Score, the NPS, across all channels, physical, digital, and remote over the past year. We are not yet at the level we want to be, and we will continue to climb, but these advances already serve as a clear demonstration of our dedication to continuously improving the satisfaction of our customers.

On slide 7, we present additional information on our strategy for the high-income segment. I have been talking about this with the market, and here we will emphasize it even further. In this year that we celebrate, coincidentally, a decade since the establishment of Select, we couldn't be happier with the results we have achieved. We concluded the quarter with almost 900,000 customers, a 42% increase compared to a year ago. Our public goal is to reach one million customers by the end of the year, and we won't stop there. We want to occupy more and more space in the high-income segment, with the principality of these customers.

At Select, we have promoted a major revamp in the segment, and are working on several initiatives to attract and retain these customers. Our focus is to provide a personalized service aimed at increasing transactionality through an offering that, in our view, is unparalleled in the market. We provide specialized financial advisory through AAA and we are launching transactional investment solutions abroad soon to further enrich our value proposition.

The high-income segment plays a very important role in generating profitability and new business. Just to give you an example, Select customers are three times more loyal compared to retail individual customers, and revenues from this segment are also growing three times faster. All this growth and progress is accompanied by a high NPS in this segment, which ended the quarter at 63, and we expect it to continue rising throughout the year and beyond.

On slide 8, I would like to draw your attention to our ecosystem. We have been talking about the Santander ecosystem and here the idea is to show how it plays an increasingly important role when it comes to customer principality, spanning 12 business sectors and offering a very diverse range of services. This includes our investment model, a robust technological operational structure, consumer solutions and services, as well as initiatives in the cultural and social domains.

Here are some examples of our most effective cross-selling models, starting with our cardholders. After activating the benefits of our Esfera loyalty program, these customers increased their average spending by 50% - quite significant. In the auto segment, we have seen a 26% penetration rate for digital insurance offerings in Consumer Finance through Santander Auto.

Our efforts to extract more value from our ecosystem are not limited to cross-selling opportunities. We also seek to monetize our holdings. This quarter, we acquired 100% of Toro and sold a portion of our stake in Webmotors, 40%, taking our ownership now to 30%. In 2002, we made our initial investment in Webmotors and, after a decade, we formed a strategic partnership with Carsales Australia, which allowed us to further strengthen our position in the market. Now, after 20 years since the first investment, we have reduced our stake in Webmotors at a price-to-earnings multiple of 42 times, but we have maintained our exclusivity with Carsales, meaning that we will continue to flow our products and services through an increasingly stronger Webmotors.

This week, more specifically on Monday night, we announced a partnership between Ben, our food and meal benefits company, and Sodexo, now called Pluxee, with the aim of adding even more value to the products and services offered by both companies. We will comment further on the Ben and Pluxee transaction next quarter. In addition, we launched Tools Digital Services, an operational structure with very ambitious plans to expand the offering of this service to the market in 2024.

On slide 9, we comment on how we are continuously enhancing our investment platform to deliver comprehensive and much more personalized services, as well as a new digital experience. Our strategy of escalating up in liabilities has generated very positive results, with net inflows reaching R$ 11.2 billion in the first quarter of this year, in individual retail alone. Additionally, our revenues posted a good increase of 12% year-over-year.

On this front, we have reinforced our positioning with the acquisition of 100% of Toro, which I have already mentioned, a company with an extremely rapid customer and AuC growth, reaching 1.3 million customers in June 2023. In addition, Toro has a predominantly young customer base, opening the possibility for us to position ourselves before a potential and good quality audience.

We also highlight here our evolution with AAA, which achieved further growth in net inflow per advisor, reaching R$ 2.6 million in the quarter, almost R$ 1 million per month, representing a 35% increase compared to the fourth quarter of 2022. This differentiated model of specialized advisory entailed a very accelerated expansion plan, which allowed us to reach the mark - which was a public commitment, by the way - of 1,300 advisors this quarter, with a presence in 90 cities. After the success of this initial stage, we have set the goal of achieving 2,000 advisors across 120 cities by the end of the first quarter of next year. We want to get even more out of AAA and we will.

Finally, our performance in the Private segment remains very positive, with consistent growth in net inflows over the past two years and a satisfaction rating of 85 points, reaffirming our commitment to offering high-quality services to all customers.

On slide 10, we describe our corporate business, where we are building a benchmark financial services platform in the market. This quarter, we surpassed the mark of 1.3 million active customers and achieved a portfolio in excess of R$ 200 billion. In the wholesale segment, we continued to expand our specialized team, which has brought about good results, such as a 7% growth in revenues and a 21% increase in loan operations in 12 months. Moreover, we highlight the quality of the portfolio, whose share of wallet continues to grow among the best ratings.

This quarter, we announced a strategic partnership with SAP to streamline product digitization and solution customization, thus improving customer-bank connectivity. In addition, we continue to lead the market in our main business lines, such as Trade Finance, where we hold a 25% share, and foreign exchange operations, where we maintained our leadership for the 9th consecutive year, according to Brazilian Central Bank's ranking.

Regarding SMEs, which is a huge focus, we continue to bet on winning new customers, attaining over 45,000 new accounts each month. We also remain concentrated in the loyalty of our existing customer base, with 53% of active customers already loyal. In addition, we are seeking to increase transactionality in this segment, with a focus on cash commissions and "*consórcios*", which have grown by 10% and 26% in the year, respectively. In the quarter, we reached R$ 63 billion in the SMEs portfolio, a 7% growth for the year, maintaining our strategy of customer selectivity, with 44% of this portfolio represented by higher revenue customers. We continue to closely monitor the evolution of the macro scenario to further accelerate growth here. We have a strong vision of the potential for SMEs growth in the coming years.

Slide 11 depicts our agro ecosystem. Last quarter, we shared our ambition to reach a R$ 50 billion portfolio in agro products by the end of the year. And we have been working diligently on several fronts to achieve this goal. This quarter, we have already reached a portfolio of R$ 42 billion, with 79% of this total coming from nonearmarked credit.

We continue to invest in technology and processes and expanding our specialized team. In the last five years, our team has tripled in size and currently consists of over 300 specialists, including several agricultural engineers. Our strategy revolves around specialized and high-quality service, understanding the value of being close to rural producers and satisfying all their needs, applying sophisticated risk models that incorporate economic, geographic, environmental, and structural data specific to each customer's operations.

The success of our strategy is evident in the cross-selling we have observed. In just one year, we have increased the number of agro customers in our Select segment by threefold and by over 22% in the Private segment, where cross-selling has been implemented for longer. Our agro belt has been further strengthened by the digital transformation. By leveraging document recognition technology, we have substantially reduced the product acquisition time and operating risks, resulting in a much more agile and efficient pipeline.

On slide 12, we present a quick evolution of some strategic businesses. In cards, we maintained our strategy of customer selectivity with 97% of new acquisitions coming from existing bank customers and with a better risk profile. In "*consórcios*", we invested in digitalization, offering expansion, multichannel distribution, and after-sales improvements. This resulted in an increase in origination volume for this product, which grew by 66% in two years.

With a market share of 22%, our Consumer Finance business continues to hold its leading position in the market, striving for an increasingly secure and profitable portfolio, with 84% of new originations made to customers with the highest credit scores. Here, we are also closely monitoring the market to return to faster growth in the coming quarters. We are confident that we can gain market share soon. In line with our ambition to reach a portfolio of R$ 75 billion in payroll loans by the end of the year, we totaled R$ 63 billion this quarter, a 13% year-on-year growth, outpacing the market's origination level and increasing our share of wallet among loyal customers. We will remain highly focused on digitization as well as on maximizing the profitability of each agreement.

On slide 13, we detail how technology is at the heart of our strategy to power our business and our customer focus. We remain dedicated to business transformation and high-quality customer service through F1rst, our technology division and part of a global system of innovation and transformation. Our technology is focused on building this digital ecosystem with stores, multichannel, generating business, and ensuring the best customer experience.

We have launched a new technology operating model and today we have 27 communities, our business domains, dedicated to support, transformation, and innovation, with teams fused with the business, ensuring agility, efficiency, and quality for our business and our customers. New deployments have grown by about 40% in the last 12 months, with higher quality and stability. All this transformation and data use have gained momentum with Open Finance, which maximizes opportunities for principality gains.

We have received around 4.1 million active consents, 1.5 times more than those sent. Currently, 91% of the bank's operations are running in our multi-cloud environment, with emphasis on the private cloud of our data center in Campinas, ensuring scalability and sustainability for our business. This very robust technological infrastructure has greatly increased our flexibility and simplified our processes, resulting in greater speed, productivity, and operational efficiency. As a result, we have cut our unit costs in half while nearly tripling the total number of transactions compared to five years ago.

Camila Stolf: After covering all our strategies and growth levers, I now invite Gustavo Alejo, our CFO, to present the highlights of the second quarter of 2023.

Gustavo Alejo: Thank you, Camila and Mario. Good morning, everyone. Let's start with slide 15, where we present our P&L. The first half of 2023 brought the continuity of our focus on customer selectivity as well as its effect on our revenue generation. It is important to highlight the beneficial effects of the new loan vintages and asset repricing, which are already starting to reflect on the steady improvement of our provisions and market NII. We expect this trend to continue and to intensify over the coming quarters.

Our fee income grew compared to the previous quarter, mainly driven by the improved performance of capital markets and insurance. Regarding recurring Allowance for Loan Losses, we saw a 12% improvement thanks to the new vintages mentioned before. Despite the impact of the collective bargaining agreement and inflation, our expenses increased slightly by 1% in the quarter, which was a positive result that reflects higher administrative expenses due to the seasonality of the first quarter.

The quarter was also marked by some non-recurring effects that canceled each other out. Among them, the gain from the sale of part of Webmotors already mentioned, which totaled R$ 1.1 billion before taxes, a tax liability arising from the recent Supreme Court decision on PIS and Cofins of R$ 2.7 billion, and the reversal of part of the additional Allowance for Loan Losses we recognized in the first quarter of R$ 1.5 billion. As a result, our net profit in the second quarter amounted to R$ 2.3 billion, an increase of 8% compared to the previous quarter, resulting in an ROAE of 11% for both the half year and year to date periods.

Let's move on to slide 16, where we talk more about our net interest income. Although our spreads have been affected by our selectivity in loan origination, which is part of a known and expected design, our customer NII grew in the quarter. This growth can be attributed to the higher average balance and the benefit we had from more calendar days compared to the previous quarter. Additionally, our market NII continues to show a gradual and positive evolution thanks to the repricing of our banking book. For the coming quarters, we expect even more favorable results in this line, as we have already mentioned in previous quarters.

On slide 17, we delve into the evolution of fees and expenses. Over the quarter, we observed a 2.4% increase in fees. This growth comes from higher revenues generated from insurance and cards, and the rebound in capital markets now in June. Now, shifting the focus to expenses, we continue to demonstrate our commitment to cost management. While expenses increased marginally, this was mainly driven by strategic investments in technology and the overall growth of our business.

On the next slide, we present the loan portfolio and balance sheet strength indicators. This quarter, we saw a reduction in credit demand in some segments, as well as the impact of the exchange rate fluctuation, mainly in the corporate segment. However, the positive evolution of agro led to a significant increase in the rural product bonds portfolio (“CPR”) of 24% in the quarter. Also, we grew the securities portfolio by 13%, and as a result, the expanded portfolio grew by 2% at the end of the quarter.

In the segment of individuals, we maintained our focus on secured products, such as payroll and mortgage loans, which performed well during the quarter in terms of the portfolio. Approximately 66% of our total portfolio of loans to individuals, including the Consumer Finance business, is collateralized.

Regarding our funding activities, we saw growth in funding through time deposits, real estate credit notes ("LCI") and agribusiness credit notes ("LCA"), with retail representing a significant share. Total funding increased by 3.4% in the quarter. This reflects our very clear strategy of expanding in liabilities.

Finally, our CET1 ratio stood at 10.6% at the end of the period. Although there was a slight decrease compared to the previous quarter due to risk-weighted assets, it is worth remembering that the implementation of Resolution 229, which is effective from July 1st, will be officially reflected in the next quarter. Considering this effect, because it's already effective, we would have reached an 11.2% CET1, returning to our target ratio of between 11 and 12%.

Slide 19 illustrates the evolution of our asset quality. As expected, our NPL indicators continue to show favorable trends. More specifically, our 15-to-90-day NPL showed an improvement of 30 basis points, primarily in the individual segment, corroborating the higher quality of the more recent vintages. However, the over-90-day NPL showed a deterioration concentrated in individuals, reflecting the impact of older vintages and the renegotiated portfolio. We expect that the good performance of the more recent vintages will contribute to continuous improvements in our cost of risk throughout the year.

Regarding our credit recovery operations, this quarter marked the best performance in our history in this area, leveraged by artificial intelligence and massive use of data. Lastly, despite a decline during the first half of the year, our coverage ratio remains quite healthy at 214%. This drop is partially attributed to the partial reversal of the additional provision for non-performing loans.

Finally, on slide 20, I would like to share with you some indicators that prove the effectiveness of the credit appetite adjustments that we implemented in late 2021. The focus on customers with higher credit ratings and secured products resulted in sequential improvements in loss absorption for products such as cards and personal loans.

New vintages already represent 59% of the total portfolio and currently around 66% of our personal loan portfolio is backed by some type of collateral. Moreover, the superior quality of these new vintages has translated into a more favorable performance of our non-performing loan indicators. In fact, the short-term NPLs of these new vintages are 100 basis points lower than those of older vintages, confirming the positive impact of our credit adjustments.

And with that, I would like to turn the floor back over to Mario for his closing remarks. Mario, you may proceed, please.

Mario Leão: Thank you, Gustavo. Well, to conclude our presentation, I would like to reinforce some highlights of the quarter, and especially some trends for the upcoming periods. Our loan portfolio continues to expand, with growth in strategic businesses such as companies and payroll loans. Where we have chosen to grow, we are growing strongly. We have shown a better NII performance, where we expect sequential improvements further on.

New vintages, with a healthier customer mix, will continue to positively impact the cost of risk. These trends, coupled with an obsessive pursuit of customer experience and customer principality, supported by technology and increasing use of data, makes us confident - and I am confident - that we have a good capacity to grow our portfolio and the business over the next 12 to 18 months.

With that, I would like to pause and turn the floor over to Camila to initiate our Q&A session. Thank you very much.

Camila Stolf: Thank you, Mario. Thank you, Gustavo. We will now begin the Q&A session. From now on, analysts will have the opportunity to ask their questions. Once again, if you wish to ask a question, simply click on the hand icon that appears at the bottom of the screen. We will answer the questions in the language they are asked, and we will have simultaneous translation in both cases by simply clicking on your preferred language at the bottom of the screen.

Our first question comes from Bradesco BBI, Gustavo Schroden. Good morning, Gustavo.

Gustavo Schroden: Good morning, Cami. Thank you for the opportunity. Good morning, Mario, Gustavo. Thank you for your time and for the call.

My first question relates to the quality of the portfolio. There was a provision reversal, which in our view was relevant. On the other hand, we saw that there was also a portfolio sale, if I'm not mistaken, of R$ 2.6 billion. If we adjusted that 15-to-90 NPL, maybe you wouldn't have the improvement that you reported if we made the adjustment for that portfolio sale. I mean, if you look at the 90-day NPL, there was still an increase, especially among individuals.

I would like to understand with you what this reversal is based on, more specifically. Is it based on the better vintages? Because there was a significant drop in the coverage ratio in our reading. So, I would like to understand a little more about this provision reversal, if it wasn't, perhaps, a bit premature here. In other words, given that we still see the current indicators, at least in our reading, still challenging.

My second question concerns the reversal of the provision, which you had to undo the reversal you made last quarter regarding PIS/Cofins. I think there is still another part to be reversed. If you could let us know if it should appear in the next quarter as non-recurring, just to help us here with the modeling. Thank you.

Mario Leão: Thank you, Gustavo. I will start, and I will split this answer with Gustavo. I will do the opposite to clear - I think it is important for us to address the PIS/Cofins issue and get it out of the way. I hope, obviously, that analysts feel free to ask further questions. But starting backwards here. So, we did indeed reestablish the provision associated with the PIS/Cofins of the affiliates. In a nutshell, we had the bank's lawsuits. The bank's lawsuit at that point was only related to the merit of PIS, and no longer to Cofins'. We won the Cofins case in 2015, a very large lawsuit, amounting to R$ 8 billion.

So, Banco Santander S.A. had a PIS thesis, which in fact was the leading case that the Supreme Court was judging, and along with this PIS case from the bank, there were PIS and Cofins cases from several of our affiliates - Consumer Finance was the largest, but not the only one. When the Supreme Court decided, as we all know, favorably to the government's thesis and unfavorably to taxpayers, what it ultimately judged was the merit of the case, which was judged in the case of Santander, and since Santander is the leading case, it applies to all other cases, including our affiliates, and with this, we had to record the full PIS and Cofins provision for the affiliates, which amounts to R$ 2.7 billion before taxes.

The legitimate question you ask, and which others would also ask I imagine, is: what about the other R$ 1.5 billion plus - reestablishing the reversal we had made in the first quarter - and the other R$ 1.5 billion, R$ 1.6 billion related to the bank. In the case of the bank, our thesis, in addition to discussing the merit, also involves a procedural discussion. And it is this procedural discussion that led to our victory in the Cofins case back in 2015, and it is the discussion that we will continue to have and from which we believe, Gustavo and others, that we would not need to make a provision this quarter. So long as we are disputing the procedural issue and no longer the merit, we believe that there is no need for an additional provision to be made.

So here there was no "let's split the effect of the defeat in the Supreme Court into two quarters". The defeat did happen, but it was a defeat associated with the merit of the PIS/Cofins case, and again, as with the affiliated companies associated with the ecosystem, we had a purely merit-based discussion, we correctly reestablished the provision, which is the R$ 2.7 billion rounded off. But with the bank, in addition to the merit, we had a discussion and are still discussing the procedure that led to the latest decision, and we are quite confident that we have a case here, which is why there are no provisions for that.

I hope I have answered this question, and if there are any remaining questions, of course, I can clarify further later. Regarding the loan portfolio, I will start and then turn it over to Gustavo. Why did we reverse this overlay, this additional Allowance for Loan Losses of R$ 1.45 billion this quarter, Gustavo and everyone else? Why did we reverse it? We reversed it for a few reasons. One: when we established this unnamed and generic Allowance for Loan Losses in the first quarter, we did it because we wanted to be conservative.

We did it because by reversing the entire PIS/Cofins thesis, we created an extraordinary positive that could have been reflected in our results. We decided not to do it and part of this provision was set up generically, which is precisely R$ 1.45 billion. We did it in the first quarter out of conservatism. Three months later, we looked at the steady performance of our new portfolios and our ability to recover older portfolios, and we concluded that our conservatism of the first quarter, regarding the R$ 1.5 billion in generic Allowance for Loan Losses, was no longer needed. It was a profound discussion involving myself, our CRO, our CFO, and the conclusion was that we did not need this additional R$ 1.45 billion in overlay coverage, and therefore, we believed it was correct - since the extraordinary that generated this overlay in the first quarter has been partially reestablished now - and intellectually honest to establish it now and reflect it in our results, given that, again, the performance of the portfolios is fundamentally better.

Thus, if we had a more pessimistic view regarding the portfolio, whether it be the performance of the new vintages or the mix, the share of new vintages relative to the whole, we could have held that for longer, which is part of your question. But, in our view, it has performed exactly as we anticipated. We are pleased with the result and the 12% drop in organic Allowance for Loan Losses. If we look at the organic Allowance for Loan Losses from the first quarter compared to the second quarter, it is, for us, also an important data point that is associated with the 15-to-90-day NPL. And even though the over-90-day NPL has deteriorated, in our view, it is part of a deterioration associated with the behavior of old vintages, the portfolio of agreements that we are seeking to reduce, which is also a point that the market rightly asks us about every quarter, and we are seeking to compress this portfolio of agreements to have an increasingly larger share of new vintages in our portfolio. Gustavo, anything you would like to add?

Gustavo Alejo: No, that's exactly it. Regarding the portfolio sale, you mentioned R$ 2.6 billion. Part of the portfolio is at a loss, another part of the portfolio has some influence on the 15-to-90 NPL, and effectively, portfolio sales are what we do. It is common and recurring, with part of the portfolio being at a loss, these R$ 2.6 billion.

Camila Stolf: We now have a question from Flávio Yoshida, from Bank of America. Flávio, welcome.

Flavio Yoshida: Hello. Good morning, Camila. Good morning, Mario. Good morning, Alejo. It's always a pleasure to speak with you. My question is regarding risk appetite. During the presentation, you talked a lot about the leading indicators for NPL, which are performing better. We can see that, indeed, the 15-to-90-day NPL is improving. And, indeed, I think this is a result of the greater selectivity since 2021, as Mario mentioned. I would like to understand your mindset in terms of going back to originating loans more intensely, whether in terms of volume and with higher risk in terms of business lines, because what we see is greater growth especially in the more conservative lines in terms of NPL - payroll, agro, and mortgage loans -, but which are known to have lower spreads. So, I would like to understand your view on accelerating origination.

And my second question is regarding the recovery revenue. We saw that, in this quarter, it improved significantly. And I just wanted to understand if this reflects a new strategy, if this level can be considered recurring. I just wanted to have a little more color on what happened for the recovery to have improved that much. Thank you.

Mario Leão: Thank you, Flávio. It's a pleasure to have you here again. I will take the first question and Gustavo will take the second one. So, I'll try to be brief here. The message, ultimately, that we are trying to convey here to you is a continuation of the same message from the last five quarters - this is the sixth one that I am reporting. In all of them, we have been discussing the same topics, with the same soundness, security, and, in a way, predictability. And with each passing quarter, Flávio, we are more confident that the decisions made back then were the correct ones, made at the right time with the clearer data that we began to have from September 21 onwards.

And with that, we will not only continue to accelerate our safer portfolios, as we have been doing. We want to continue growing what we have been calling strategic businesses, agro, which is quite safe, payroll loans, auto financing, which we grew a little in the first half because the market as a whole is very tough, but the key message is this: with all the homework being done, from the standpoint of containing the cost of risk, containing and reducing the cost of risk, with the new vintages - we continue lending, obviously, but we have higher borders than we had before.

Every quarter that goes by, we become more comfortable in looking and saying, "well, for the portfolios that we have been growing, let's seek even further growth because it's working," and for the portfolios that we have been growing sideways or even declining, and credit cards may be the most emblematic example, we look and say, "okay, it's time for us to go back to having a little more emphasis here." Will it be a wide and unrestricted regaining of appetite - not that it was like that in 2021 -, but will it be comparable to what we did in 2021? Absolutely not.

We are not going to look for customers in the open sea, with the same hunger that we had back then - us and the entire market. We will continue to seek the capture of principality, as I have mentioned several times here, within our customer base. New customers are welcome and always will be, but we will always look for qualified acquisition. Even those that we make digitally, we want them to be increasingly qualified. We have invested, as I mentioned, a lot in data. Toro itself makes a qualified and very good customer acquisition. We want to bring that technology here. So, customer acquisition, yes, but qualified acquisition and seeking loyalty within our base.

But credit cards are an example, Flávio, of where we made the right decisions. We lost market share, and the number of active customers decreased. We are not happy about it, of course, so I'm not speaking with joy, but it was the right thing to do. From this point forward, we can go back to seeking growth. In fact, stopping the decline, stabilizing, and returning with a focus on the specific audiences that we wanted to work with - again, in-house customers. But credit cards are a good example of where we want to return to seeking growth, growth in market share, growth in revenue, and along with that, fees and financing associated with cards.

So the answer is yes, every quarter we want to increase origination. Again, not in a broad and open-sea manner, as we ended up doing a lot in 21, but in a qualified, calculated, and calibrated way, unquestionably aiming for quarter-on-quarter growth. That is why we say net interest income will grow from now on, not only because Market NII will improve, but because we want to grow customer NII, without a doubt. Gustavo, would you like to comment on the recovery?

Gustavo Alejo: Flávio, how are you? Great to see you again. Recovery, obviously, as we have been saying lately, we use a lot of data intelligence in recovery, so we have a very robust testing environment. We test different strategies and always find ways to increase collections, so we measure and look for new strategies. We have benefited precisely from some specific strategies in which we have acted more closely, and the trend is that our capacity will be increasingly higher in terms of collections, given all the architecture, infrastructure, and data modeling environment that we have been building for quite some time now. This has been built over the past three years, and we continue to evolve, which is one of our strengths in this regard.

Camila Stolf: We now have a question from Yuri Fernandes, from JP Morgan. Good morning, Yuri. Welcome. Yuri, I think if you speak a little further away from the microphone, we can hear you better. Let's try it like this.

Yuri Fernandes: Can you hear me? I have a question regarding the others line. It came in a little weaker. It seems that it has to do with capitalization and more legal provisions. I don't think these provisions have anything to do with this... So, the first question about others, what happened here? What can we expect from the capitalization line, which is a line that was showing losses and had a loss this quarter.

My second question is about the market line. It has improved. I think the market NII line is expected to keep improving. But what are your expectations, especially regarding the curve, is it more about strong service or the curve... as well? I just wanted to understand a little more about the evolution and what to expect in terms of the market NII line curve. Thank you, guys.

Mario Leão: Yuri, the connection wasn't very good, but I think in summary you asked about the others line. What explains this quarter-on-quarter change in that others line, Gustavo will comment on it. And then you asked about net interest income, market NII, acknowledging the improvement, and what we may expect going forward, which I will address next.

Gustavo Alejo: Well, the others line - I couldn't hear your question very well, but I think it's important. You may have already seen the explanatory notes, either the 26th or 27th. We had a provision for contingencies. There was progress in that regard, and to be honest, that's one of the major moves we saw in the quarter.

Mario Leão: You asked, Yuri, about the labor issue. Yes, everything is explained in our notes and throughout the release. Between the end of last year and the beginning of this year, the judiciary did indeed move more quickly in dealing with labor disputes, particularly older ones. So, in some ways, this line has grown. Once this is settled, we should see a convergence again towards a better level. In any case, the effect of the quarter is largely explained by this. So, you read it correctly. We can go into more detail later if you want to.

From the market NII perspective, which was the second question, we have consistently been talking about the improvement that we expected to have. This quarter, we are already delivering a concrete improvement. So, it's good that we are delivering what we envisioned before. And we continue to see a trend of convergence of this negative figure, which we obviously don't like, but it is explainable by the way our balance sheet is structured, as we have discussed extensively with you all. We expect to have a continuous improvement quarter after quarter, and at some point, which may not be far away, we will turn this line into a positive line, and obviously the overall result will have a positive composition, with a positive contribution from the market NII line. Thus, we continue with the same vision that we have been discussing, and every quarter we expect to show it to you in more concrete terms.

Camila Stolf: I will now turn to Pedro Leduc from Itaú BBA. Good morning, Pedro. You may ask your question now.

Pedro Leduc: Good morning. Thank you, Camila. Hello Mario, Gustavo. Thank you for this call. I would like to talk about the SMEs dynamics, a relevant portfolio for the bank, traditionally higher spreads as well, and cross-selling potential. I wanted to know what the outlook is for the remainder of the year until 2024, combined with the bank's broader strategy as well. This will be the first part of the SMEs discussion, and again, looking from the outside, it appears that NPLs are more under control, which might lead to stronger appetite from the bank. How is the demand side shaping up?

And my second question is related to *Desenrola*. Any color here that you can share, whether it's impact on results, revenue, cost, or capital, would be welcome. Thank you.

Mario Leão: Great, Pedro. Thank you. It's a pleasure to be with you again here. I'll take the first question. SMEs, as I briefly mentioned, and have discussed in other interactions with analysts and investors as well. This is, without a doubt, a big bet. When I say big bet, it's not that it's small and will become big. It's already relevant as you said. It's something like 12% of our loan portfolio, so it's not small.

But the vision that I have here - and I take this opportunity to share it with you - is of a business that we believe is already relevant, that already impacts our results, and has been performing very well. We had a record year in terms of business customers in 2022, not only in SMEs, and we had a more challenging first half than last year, of course, because the macro environment is more difficult for business customers on average. Apart from extraordinary events, such as the one in early January, but overall, the Corporate and SMEs segments continue to perform well.

We grew less in the Corporate and SMEs segments in the first half than we could have, Pedro, so the provocation is fully accepted, and this was calculated. We dedicated a lot of time in the first half, especially in SMEs, taking care of housekeeping in the Corporate and SMEs segments. So, we worked extensively on recoveries and calibrating the portfolios, making sure the portfolios had the quality, average rating, etc. that we wanted. We ended the first half quite pleased with what we were able to accomplish in terms of balancing the SMEs portfolios, and from the second half onwards, we will surely have more knowledge.

So the vision I have here, Pedro - which I have already mentioned at other events - is to double this business in three years. This is not necessarily a linear expansion, and I will not do it by design either; I am talking about a vision of materiality, of magnitude, so if we now have R$ 60 billion, we must aim for R$ 120 billion within a few years. It will not be linear again and, out of caution, we may decide not to grow or grow sideways, as we did in the first half. But, with the housekeeping we have done here, and everything we have been learning from the models, and increasingly personalizing the offering and dedication of limits to customers, I am quite confident that this is one of the strategic portfolios, without a doubt, that we will grow with greater strength from now on. And the *Desenrola* topic I'll leave it for Gustavo to answer.

Gustavo Alejo: Good morning, Pedro. How are you? Well, in terms of recoveries - and I'll connect recoveries to *Desenrola* - we have always had this focus throughout the customer lifecycle. As a result, we always have conditions to offer to all customers. With *Desenrola*, we don't have particularly relevant audiences in bracket 1. In bracket 2, there's a possibility, so we already have conditions, but they are not too different to the ones we have. What has already happened, we have seen an increased propensity to renegotiate debts after the announcement, which is positive, and we have been acting accordingly. From an impact perspective, I think it's a bit early to say, but in closing, there is less potential portfolio volume in bracket 1 and more in bracket 2, and depending on the evolution, this is the direction we will take.

Camila Stolf: We now have a question from Daniel Vaz from Credit Suisse. Good morning, Daniel. You may ask your question.

Daniel Vaz: Camila, good morning. Good morning, everyone, how are you? Well, my question is more about the bank's posture, in terms of seeking loyalty and principality, which sounds a lot like your competitors'. So, clearly the environment is still more conducive to qualified growth, as you mentioned.

But the thing is, on the other hand, the margin on card products and overdraft makes a lot of difference for NII, not to mention other additional revenue. Thus, it seems like an environment of not only more moderate portfolio growth in these riskier lines, but also revenue for the entire industry. Then, cost control may be crucial for maintaining margins. So, I think I have two questions. First, whether you agree with this, and second, how the bank has been thinking about cost control, vis-à-vis the importance of maintaining customer satisfaction in this pursuit of principality.

Mario Leão: Daniel, thank you. I'll take this one. This is a very broad question and I appreciate you asking. I'll try to give you a short version here, but we can discuss it in more detail later, as this is very much connected to our overall strategic vision. And this is the vision that I have been sharing with you all since the very beginning of transforming a grayer, square bank into a truly consumer-focused company, where we talk about stores, we talk about customers. Everyone talks about customers, but we have been seeking different answers for the customer dimension, for their principality.

So, what have we been doing in terms of expenses? We do not consider expenses to be an end in and of itself, nor do we consider them to be an input per se. What we have been looking for is where we can find self-funding in expenses so that we may invest where we need to invest, including in people, to obtain customer principality and loyalty. So, I'll give you a few examples. We are growing Select, as I previously mentioned, to one million customers this year. I can't serve, no matter how digital I am, how robust my app is, how much remote assistance I have, increasingly using chat, artificial intelligence - I need humans to serve Select, because that is what

Select customers demand.

So, we are boosting the number of Select specialists in Brazil by a few hundred, but where is the funding coming from? The funding comes from efficiencies achieved in other business lines. At AAA, we started with a few hundred people in the traditional advisory model, which would never allow us to scale. We currently have 1,300 advisors and are on our way to 2,000. This is an investment. And we are making all this investment while reducing expenses in the last quarter, with 1% in quarter-on-quarter expenses, which is virtually nothing - I'm not dismissing it, but with very significant expense management. So, for us, the entire expense issue is: where can we better allocate the resources we have? Our annual investment amounts to around R$ 20 billion. That's a lot of money.

So, how can we direct these expenses in such a way that, as a whole, we do not grow materially, or grow very little or nothing at all, but that we channel it to where it is important to invest for the customer, where they need human assistance, where they need more impeccable remote assistance than the entire market, and where we obviously have to do more and more of our digital and continuously improve the app, design the new app, and so on. So, we have been looking for an answer to expenses as a way to get to the top line. And the only way to do that is by bringing customers closer.

And to conclude without expanding too much, what we have been doing with cards, checks, and so on, which is a very nice portion of your question. What we have been doing is this: we have been looking inward, which, again, does not imply that we don't have the ambition to grow. I mentioned that at the beginning, and we are growing well quarter-on-quarter and will continue to grow, but this is not a contest to see who has the most customers. This is a race for "the customers I have, how do I bring them closer"? If on average each customer has five accounts - and this is the latest data, over one billion accounts across the entire Brazilian population - how do I become account number one? And there are several answers that involve CRM, payroll, and an offering that is not bigger, but smaller. We must streamline our offering, and whatever we choose to do, we must do it in an absolutely impeccable way. So, I hope I have covered some of the elements here; and again, we can go into further details later.

Camila Stolf: Now the question comes from Olavo Arthuzo, from UBS. Good morning, Olavo. You may proceed.

Olavo Arthuzo: Good morning, everyone. Thank you, Mario, Gustavo, and Camila, for the question. I have only one question. I wanted to draw attention to the bank's capital, since we began this second half, on July 1st, with a regulatory change in RWA for some products, and further ahead, in 2025, it is still under discussion, but there would also be a change in RWA for operational risk.

So my question is this: I just wanted to understand from the bank, if you can give us an idea of how much this first change that is now in effect will positively impact the capital ratio, and if you can also give us an idea of how much this potential change in operational RWA will impact the bank in 2025, and in the midst of all this, how do you see a possible capital payout now, or whether you will be a little conservative in the face of these two changes, this regulation. That was basically it. Thank you.

Gustavo Alejo: Okay. Thank you, Olavo. Good morning. Regarding the first part of your question, Resolution 229, as I previously stated, has a positive impact of 60 basis points. So, we have 10.6% on the balance sheet. This ratio will be 11.2% as of July 1st, which is within the range that we consider adequate and comfortable. So that's the first part. Concerning operational risk, I think it's a bit early for us to say what the impact will be. It is still an ongoing discussion. Obviously, depending on what ratio is set, we will determine from there whether to adjust our payout policies, for example.

Camila Stolf: We now have a question from Tito Labarta from Goldman Sachs. Let's switch to English now. Tito, good morning. Welcome to our conference.

Tito Labarta: Great. Thank you, Camila. Good morning, everyone. Thank you, Mario and Gustavo, for taking my question also. I think I have a few questions. Mario, you mentioned you're moving into higher income segments. I just wanted to ask you about how you view the competitive environment, both in the high-income segment and the low-income segment.

And following up on previous questions, you talked about principality and gaining that. So, I just want to see how you feel Santander is positioned relative to its peers in the two different segments. And following up a little bit on the capital question, you are at around 11% in the first quarter. But with an ROAE at around 11%, how do you feel about your position, particularly once rates start to come down, for future growth in these segments, both from a capital perspective and compared to your peers? Thank you.

Mario Leão: Of course, Tito. So, I'll start by addressing the perspective of competitive advantages, the competitive environment in high income. You also asked about low income. So, I'll address both. And then Gustavo will comment on the capital. Regarding high income, and we discussed this a few months ago when we met in New York, how do you position yourselves? How do you differentiate yourselves? It's a very fair question that we ask ourselves every day.

It's not obvious. And we should keep asking and repeating the answers and enhancing them. There are a few answers or approaches as to why we believe we have a consolidated franchise. It's not that we are building something. We are reaping the benefits of having built through the last decade, and we are now reaping the benefits. We are not satisfied. We want to double. So, we want to be much bigger in high income. High income/investments, right? Therefore, we serve customers on Select, who are not necessarily employees, but they are investors.

So, our approach is based on the lowest customer load per advisor across the entire financial advisory industry. Thus, we started AAA with 100 customers per advisor. On average, our competitors, whether broker dealers or banks, have between 600, 700 or even more customers per advisor. Therefore, it is obviously a mathematical issue. By having only 100 customers to serve, we can offer a much faster, much quicker, much closer service. Obviously, we can increase this load towards maybe closer to 200 customers, but we will always maintain in our operational model for AAA a lower account load and, thus, much more principality derives from that relationship.

We also invested heavily in digitalization and in the apps that we call our investment platform. There is still much to be done, but we believe that we are on equal footing with our competitors on the digital front. On the remote side, in terms of being able to speak with a human, not necessarily by being physically present at our stores, we provide personalized support 24/7 via chat, telephone, and obviously at our stores during opening hours.

So, we believe that we are multichannel in our high-income segment in a way that some of our competitors, who are, for example, fully digital, cannot offer. Customer behavior varies throughout the country, Tito, as you well know. However, in most regions where we have Select stores, customers enjoy the experience of visiting our stores and interacting with our specialists. Therefore, we believe that these combined factors are differentiators. Additionally, very soon - sharing a spoiler here - very soon, we will enter the international account market, with debit cards, etc. With this, we hope to further complement our offering.

In low income, the answer is different. As I mentioned before, we are not looking to acquire customers in the open sea to later become their primary bank. We have a lot of low-income customers in our base. Which customers are we most focused on? Payroll customers. There are a lot of payroll customers, the base of all companies' pyramids, they are low income on average. And with the knowledge we have about the employer, the behavior, the type of fixed income approach from a risk perspective, we believe we can do much more with low-income customers, including credit cards, including overdraft, you know, accounts with overdraft limits. And with that, we believe we can continue to grow in our low-income segment in a much more controlled way than, again, we did in the early part of the cycle. And regarding the capital, Gustavo?

Gustavo Alejo: Yes, Tito, as I just mentioned, we are within the range that we consider important, a good range. It is evident that, looking towards the future, we expect an even better performance in terms of depreciation and market NII. And potentially, we will have room for further improvements in terms of profitability. Therefore, we are comfortable with the current range and from a broader perspective as well.

Camila Stolf: Well, with that, I would like to conclude today's teleconference. I would like to thank everyone for joining us this morning. After this video conference, myself and the entire Investor Relations team at Santander Brasil will be available to clarify any remaining questions. Thank you, have a good day, and see you next time.

Mario Leão: Thank you very much, everyone. See you next time.

Gustavo Alejo: Thank you.