

Operator:

Good morning, everyone, and welcome to the Porto Seguro 1Q25 earnings results conference call.

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After the end of the presentation, we will start the Q&A session. Please, send your name and company through the Q&A icon at the bottom of your screen. Your names will be announced for you to ask your question live. At this point, a prompt to activate your microphone will appear on the screen. If you do not want to turn on your microphone, please write 'no microphone' at the end of the question, so it can be read out by the operator.

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Now, I would like to turn over to the Porto executives who will begin the presentation.

Paulo Kakinoff:

Good morning. I am Paulo Kakinoff, and it's a pleasure to be here to present the 1Q results for Porto Seguro. We also have Celso Damadi, our CFO; Domingos Falavina, Investor Relations Director; and CEOs of the verticals and the Head of Porto Asset.

Our search for well-being, health and people's assets have been reflected in satisfaction levels that make us even more excited to perfect our work even more, and we will mention these indicators during the presentation. I would also like to say that we have posted another quarter of growth by strengthening our 4 verticals and our ecosystem.

So I would like to highlight this R\$10 billion in total revenue this 1Q, a new level of results for the organization, as well as the net income of R\$832 million, up 28% versus the 1Q24. So this gives us a new perspective results for the Company.

Our ROAE was 24%, which was a of 3 p.p. growth versus the 1Q24. And here are our structural indicators that help us to celebrate this result, and this also generates very positive expectations for the next quarters.

We have a record number of clients reached by the Porto ecosystem, 18 million in total, 32 million businesses carried out, and our NPS is also at a historical level for the Company, 88 points.

When we look at the results per vertical, in Porto Seguro, our business that has the highest contributions to our results, we grew across all portfolios, reaching 17.3 million items or businesses, also up 15%. Loss ratio went up 2.5 p.p., especially in comparison to the 1Q24, which had an exception, and we will discuss this later on.

In Porto Saúde, we added 360,000 health insurance members, 139,000 in health insurance, and 221,000 in Dental. And the loss ratio, which was low, had a reduction of 1.6 p.p.

In Porto Bank, our revenue went up by 29%, and one of the most important indicators, had a reduction of 0.5 p.p. in the over 90-segment, and this is our default level. So we know that the market had been doing many credit operations.

Porto Serviço reached an EBITDA of R\$113 million, up 20%, and our EBITDA margin also went up by 1.4 p.p.

So to go into details about these verticals, I would like to invite Celso Damadi to the stage.

Celso Damadi:

Thank you. Good morning, everyone. It's a pleasure to be here with you. So I am going to continue the presentation and give you some more color on these figures.

Our total revenue growth was 15% across our 4 verticals. So this growth of lives in Porto Saúde, of businesses in Porto Bank, Porto Serviço, other businesses have been growing by 23%, and this is also unrelated to Porto Seguro. So we have a group of verticals that is growing above 20%, and Porto Seguro has grown 6.5%.

So this 15% growth benefits our ecosystem, helps dilute our costs. Our gains in SG&A were 0.5 p.p. versus last year. So we have been continuing this trajectory in gaining productivity and operational efficiency, which makes us more competitive and gives us a higher level of profitability. It's much more competitive so that we can continue growing at this pace.

Here, we see that insurance went up 6.1% in Porto Seguro. In the Health vertical, it grew 35%; Bank, grew 29%; Serviços, 9.4%, but for this vertical, if we remove that relationship with Porto Seguro, we are growing over 23%. So this is a productivity gain and a very relevant dilution of fixed costs.

And here, we see our results of over 22% in all business units. And this is for all businesses, because for Porto S.A., our ROAE has been above 22%, as we mentioned before. In Porto Seguro, it was 23%.

Porto Seguro has a seasonal pattern. So in the 1Q, it traditionally has a lower ROAE. So the 1Q24 had many good one-off situations. And besides that, we also had a leap year, so we had 29 days in February, and that gives us a higher earned premium.

In the 1Q25, we also had a loss ratio from Christmas and New Year's of 2024. This was an extended holiday, and it was a bit higher than our calculations. So our loss ratio was higher in the 1Q25, but we still feel confident about that frequency and severity. And our guidance remains the same. This does not concern us. These are atypical things that

happened in the 1Q. And in the 1Q24, we also had a very dry year, and we had a much higher result than we usually have.

In Porto Saúde, our ROAE was 40%; in Porto Bank, it was 27%; and in services, it was 26%. So when we look at our total ROAE, it was 24%. And our ROAE without surplus capital was 27%. So this 24% has several components.

Last year, in the 1Q, we had R\$30 million in businesses where we continue to face losses. And we mentioned this to you in the 4Q24. And these operations are no longer suffering losses. So that is also helpful.

Our cash generation in 2024 is also helpful because we are starting 2025 with almost R\$2 billion more than in 2024, and this generates better financial revenue. This is also in our guidance, and it's also happening.

So our average CDI was also higher in 2025 than 2024. So this group of things, including increasing our financial revenue and improving defaulting has resulted in this record result for the quarter. And of course, there were businesses that were suffering a loss in 2024. So these were all the factors that led us to this record result and this high return on equity.

This is one of the things that we have been working on, which is diversification. Here, we can see that in the 1Q24, our share was 57% in insurance, 15% in healthcare, and 21% in banking. And here, we can see how this has been more diversified this quarter. This is a part of our growth strategy. So insurance now represents 42% of our income, services are 7%, bank is at 26%, and healthcare is at 24%.

As we have been saying, a business that has this seasonal pattern like healthcare, which usually has a lower loss ratio in the 1Q, and automobiles, which is higher in the 1Q, will offset each other. So that makes our results more stable for each quarter. So that reduces that quarterly seasonal pattern by having more diverse businesses.

And in terms of our investment performance, there were not many changes. But as you might remember, last year, we rolled out some titles, and that increased our average rate. We also saw a higher inflation level in the 1Q, which also helped us to pay our NTN-Bs. So this group of circumstances that I mentioned here has brought our results to this level this quarter.

I am going to invite Dom to continue and give you some more details on this.

Domingos Falavina:

Thank you. Good morning, everyone. Now, we are going to analyze each vertical briefly, concluding with a guidance in the areas that we are still focusing on growing.

When we look at the Porto Seguro vertical, we have to highlight that last quarter, we were growing at 4%, and now, 6%. So we have been accelerating, and this is led by the Auto vertical, which last quarter was growing at 1.5% and now is at 4.5%. And we are also having double-digit growth in P&C and Life.

So we mentioned how the first half and the 1Q of the year has a seasonal pattern. The 1Q24 was very dry. So we had very strong results. And still with this loss ratio of 53%, we had a very healthy level, and this was adjusted by the seasonal pattern.

So in Life, it's important to highlight that we have had a very strong growth in the travel insurance product, which has a seasonal pattern and is stronger in the first few quarters. So this was our loss ratio, and we still consider it to be healthy.

And finally, the ROAE, 22% for the period. And Damadi also mentioned the contributions from Auto, which has been going down in our operation due to the strong growth that the other businesses have had. So overall, it was 40% in Porto Seguro and Auto represented 60% of that. So that was mid-20s contribution from Auto for our consolidated results.

Continuing with Health. First, we want to mention how we had a strong growth in Life's insured. And this is related to the broker channel. We mentioned this during Porto Day. About 5 years ago, we had 1,000 brokers selling 1 policy in the last 12 months. And in 2024, we are at 6,000 or 6,500. So having a higher number of brokers engaged with this project was the main contribution for this growth. In premium, 35% with 140,000 Life's in addition to what we already have.

And this is the opposite of what we see in the Auto industry. Usually, in the 1Q, loss ratios are low, and this was, in fact, a strong quarter. So it was nearly R\$180 million in income. The main drivers for this are: continuous fraud control; continuous work from the Porto medical team; very good digital control of our clients' journey; and our capacity to pilot and price things so that this product is affordable and also economically viable for us. So our ROAE was 40% in this business for this quarter.

Here, we see the loss ratio along with Dental, and it was nearly 70%. And of course, this is also helping us.

And now looking at the Porto Bank vertical. We had a 25% growth in our total business. The NPS for the Bank segment was 75%, and our net profit went up 29%. We reached R\$192 million in income and 27% ROAE. We always like to mention our efficiency ratio in Porto Bank because this is a very important metric for the industry. And you can see that it's comparable to digital banks. So we believe that this growth in banking and our leverage of the broker channel is going to continue matching the efficiency of digital banks.

Here, we see our financial revenue, and you can see how our average monthly revenue has been growing. And this also puts Porto Bank among the best companies in monetizing our client base. Our portfolio grew 14.4%, slightly above the average for the industry.

Here, we see our default index. As you can see, it's very healthy, and we have seen some improvements.

And here, we are continuing with Porto Serviço, our last vertical. We executed 731,000 car services, nearly 693,000 services for homes and businesses, and our NPS is at 80 points. And this is one of our values for our clients and for our investors.

And one of the main drivers behind creating Porto Serviço was expanding our revenue outside of the Porto ecosystem. So we grew 24% in revenues year-on-year. And you can see that our contributions are 10% higher than last year. So this is becoming a reality.

Our income reached R\$67 million with a constantly improving ROAE. As we mentioned before, this is due to the growth of our operations space. This is an operation that has 0 regulatory employed capital. And as our premium loses representation, this ROAE will remain high.

Our projection is unchanged. Our guidance remains unchanged. I am sure that we are going to get questions about this, but the only index that is below our guidance was the loss ratio for Porto Saúde. But of course, this is a seasonal factor. This usually happens in the 1Q. So we do not currently see any reasons to review our guidance.

We always like to give a big picture on how Porto is doing in its several businesses with the growth levels, and we always highlight the ones that we have been focusing on. This is still a small market share, 2.6% in card and 3,5% in consortium and we see how much we have been growing in comparison to the market. This just gives you an idea of our potential growth and where we have been focusing.

So that concludes our presentation, and we will now open for questions.

Arnon Shirazi, Citi:

Good morning. Congratulations on these results, they were very strong. My question is about services. I think you have been emphasizing this vertical recently. So I would like to know a bit more about the potential B2C market. I think, this is a business that still has some revenue for the Company, and you have been focusing on that. So what are your perspectives for that, and also strategic partnerships, what do you expect in that sense? Thank you.

Lene Araújo:

Thank you for that question. Thank you, everyone, for participating. We have 3 major business lines. We have the Porto contract, partnerships and B2C, as you mentioned. B2C, we were fortunate to see this quarter a growth in revenue, but I have an operational view on that, what we have been doing in B2C for consistent growth. We are still preparing the Company, but at the end of March, we were able to raise all the services we have for our sales hub.

What does that mean? From now on, we are able to model, prospect, project, provide subscription services, and we will be much faster in correcting things. So now we will truly start operating B2C.

This was very important for us. And we are using several of our sales channels. We have the app, we have WhatsApp, we have our vendors network. And we visit 14,000 people a day, half of which is in houses and half of which is through our 24-hour assistance service. So we can expand our services and what we can offer.

With B2C, we prepared the Company from the operational perspective, and we are now becoming stronger at creating products.

In strategic partnerships, besides the partnerships that we had in the past, we added 10 new ones. We are looking specifically at regional retail. Outside of São Paulo, we see many opportunities. So I would say that we are in the preparation stage, and we are starting to see opportunities in B2C and with strategic partnerships.

Kaio Prato, UBS:

Good morning, everyone. How are you? Thank you for the opportunity to ask me a question. I have two questions here, please. The first is about the results of your other businesses. I think it came out much better than the last quarter. You went from a loss of 135 million to a profit, I think close to 80 million.

I understand that you had non-recurring write-offs in the last quarter, which you had already mentioned, but this positive result in the 1Q of the year is noteworthy. So, I would like to know if you could give a little more detail about what happened here vertically, because the financial result came out much higher. Anyway, the tax rate also came out a little different.

If you could give an overview of these other businesses and if this number may even be a little more recurring instead of the losses we saw throughout last year. And then I will come back with my second question. Please.

Celso Damadi:

So in this line of other businesses, we also have our financial results for the holding, that's our treasury results. So in 2024, as I mentioned, we have R\$30 million in loss in other operations that we included in this line to protect the other business verticals.

We also mentioned last year that this line should be positive this year because since we no longer have to absorb these losses from the holding. What we call our excess capital our free assets have also increased. So this year, our business line is working this way.

All of our businesses are paid at 100% of the CDI. So when this happened in the 1Q24, and we were below CDI, this line that we call holding treasury will pay for that difference to the business units. So we need to price them with 100% of the CDI because the market risk is the risk of being in treasury. So this is how our business goes. So this is going to depend on our profitability so that we can continue at these levels. But I do believe that this line will be positive until the end of the year. And this is all within expectations.

So the factors were, this loss that we did not suffer, we had an increase in cash and average profitability, so the average CDI went up, and third, since we were at 99% of the CDI, this holding did not need to subsidize, so to say, any of the operations because all of them were at nearly 100% of the CDI. So these 3 factors have led to this positive result.

And there's something there that we also do not discuss as much, which is the profit that we had from Porto asset. This is included in the other businesses line, which does not belong to the holding or the treasury, but it's another part of our business that has had a higher profitability and is gaining more efficiency.

We have R\$10 billion in third-party assets in our portfolio. So this group of things is leading to this positive result in other businesses.

Kaio Prato:

Thank you. That was very clear. My second question, if I may, is about the insurance vertical, if you can give us an overview of the competitive scenario for Auto, and also considering the seasonal pattern. I understand that the 1Q usually has a weaker seasonal pattern, but it draws my attention because there was no major event and there was a significant increase. And your loss ratio is closer to the industry average, and this is a bit different from your long-term historical loss ratio. Do you have an opinion on why this has happened? You are the market leaders, and you have always had better loss ratios than the industry overall average. So if you can tell us about that.

Domingos Falavina:

Kaio, good morning. Concerning the market, we are in line with it. This year, it is slightly better in sales, and we have posted a growth of 135,000 items in our fleet. So I would say that we are a bit different from the market in comparison to previous quarters when it comes to sales.

Considering our loss ratio versus the industries, we cannot forget that, due to the services vertical being created, we have a markup, which is 2.5% to 3%. So this is what is putting us in line with SUSEP. If we did not have that markup, we would still have that difference.

And about our loss ratio, last year, we had an exceptional period that was completely different from previous years. It was a dry period without major flooding and also without a high number of accidents. And this year, it was different. This year, we were within expectations. So this was a normal period during the quarter. We had a bit more flooding, but smaller floods that were spread across a few regions of the country. So with that and with higher rainfall levels, the accidents level also went up, and that is reflected in loss ratios for other parties.

So that's a brief summary, but this is all within normal levels. This is in line with our guidance, and we had already foreseen this in our projections. So the 2Q, we believe will be much better than this one.

Paulo Kakinoff:

Kaio, just to add to this answer, in the historical series, we have been seeing that there is some variation in the loss ratio between the 1Q and the 2Q. But during the quarter, looking at the last 10 years, the loss ratio is relatively stable. This suggests that the loss ratio for the 2Q will not have an event like Rio Grande do Sul last year.

So we believe that this will be a normal quarter, even considering the 3Q very abnormal. So with Rio Grande do Sul, on average, it was a typical quarter. And this is what we believe will happen in the first 2 quarters of 2025.

Guilherme Grespan, JPMorgan:

Good morning. Thank you for taking my questions. I have 2. First, it's about the Bank unit. Your NII was very strong, not only looking at the managerial view, but also looking at the managerial view. It grew 15% to 20% quarter-on-quarter. So this shows a very strong expansion. So I just wonder why NII was so strong at this order of magnitude. It was at R\$560 million, R\$600 million, and it was then R\$730 million this quarter. So that was a strong growth.

Also, a question about the insurance vertical. We see an expansion of items in P&C and lives. So I would just like to understand what products you imagine we should pay attention to. Is it a new product? The difference in insured units was very relevant. Thank you.

Marcos Loução:

Grespan, thank you for that question. We have been working very much on our financing our loan portfolios for about 2 years. This was a redistribution of the product portfolio, and we have been hedging products that have a higher profitability, especially when it comes to vehicle financing.

So we are working on clients in our ecosystem. And we reduced it and started advancing in a refinancing portfolio, which we call car equity, and that has a much higher level of income. So a part of this increase was due to rebalancing these businesses throughout the year. If we look at the share of these businesses in our results, it went from 22% to about 30%. That's very relevant.

And another point that we have to highlight is that, with 4966, we had to re-adequate our terms from 60 to 90 days, and that generated a higher level of revenue. So that, of course, needs to be taken into account. When you adjust this in risks, these losses are disregarded. So that's the reason that explains a part of this increase in profitability.

Also, another factor is our efficiency of distributing these products in our cross-sell and also in our digital offer. For a few years, we have been working in the Company to make financial products available in the customers' digital journey. This has also favored the distribution of these products. So that's basically the explanation for why we have increased.

Rivaldo Leite:

Good morning. We do not have any specific products, just to answer your question. In the last few months, we have been talking about our new product portfolio in auto, and this is related to products that have a smaller average ticket, but that have high levels of profitability. So this is partly due to that and partly due to the growth that we have been mentioning in the last few months.

Non-auto, especially life, individual life and VG and travel, as Dom mentioned, and residential is still growing. So this is not the only product. It's about product diversification. It's a very strong inclusion in our security space.

Guilherme Grespan:

My question was about Life and not Auto, which had an increase of nearly 800,000 items. That is great. Thank you.

Antonio Ruelle, Bank of America:

Good morning. Thank you for taking my questions. I have 2. First, if you can tell us a bit about what we discussed during Investor Day, which was those synergy gains among verticals in Auto across the several brands that had different structures. If you can tell us a bit more about it, if there's still an effort that can be made here or if most synergies have been captured. That's my first question.

My second question is, if you can tell us a little bit more about default in the Bank vertical. It went down as this portfolio was sold, but if you can tell us about this performance quarter-by-quarter, considering that this portfolio is being sold. What explains this dynamic?

Paulo Kakinoff:

I will start with synergies, and then I will let Celso answer your question on defaults. Yes, we do believe there is more potential for synergies. We are seeing the effect of scale and this growth of verticals and business levels, of course, does not reflect our SG&A costs. And we have been seeing marginal additions to our structure to handle our volume, even with our growth at this level.

For the next few years, our projections are that we will continue to have significant opportunities for growing our business without needing to change our total head count, for example. Besides that, with new technologies, we have been seeing some additional opportunities that have been previously mapped for additional gains.

A good indicator of these effects that we are mentioning is the evolution of our DA. We have not discussed this as much during our call, but we are also coming to new levels in the organization. And this is combined with additional investments in quality, our services infrastructure, the reduction of the contact rate, which is the number of times clients need to contact us on the phone, and that has reduced significantly by improving their journey by going digital. So we still see great opportunities to capture there in the next 36 months.

Domingos Falavina:

His response was focused on cost. And of course, with costs for 2025, you never have the full amount. And in revenue, we also have a gain that can serve as an example. The Azul brand did not necessarily see Porto as a brand. So we cannot show how much conversion we have for each channel, but we are already seeing gains, so brokers who are able to sell Azul and Porto in the same system. And this leads to increased revenue, which should be captured in 2026.

Paulo Kakinoff:

Yes, because of our cross-selling potential and all of the opportunities that we mentioned, we still have a lot of room to grow.

Rivaldo Leite:

So we are changing our system, our platform, and now, all policies are issued in a single platform that we call the R3 project. And we have talked about this at some point. I think that's why you raised that issue.

We are going to conclude this process in August. We already have operational gains. You are going to start to see it in our DA. And starting in August, we will see even higher gains, but the entire process will be concluded in August.

Marcos Loução:

Just to talk about default, with every 1Q, the consensus of the market is that this period is higher in our defaults because of how people consume in the last months of the year. And obviously, in the first month, there's a lot of disbursement with card taxes, property taxes, and school expenses. So this is normal.

In addition to that, with this change with 4966 taking our stock accrual to 60 days, there's also an impact. If you consider that the normal number is 6.1 or 6, we have basically been able to sustain the same default level. And if you consider the sale of our portfolio in the last quarter, it was 6%. So there was a slight increase due to this adjustment from 4966.

Operationally, we underscore the guidance that we had for this year, and we are within what we expected.

Eduardo Nishio, Genial Investimentos:

Good morning, everyone. Congratulations. I just have a question about the guidance or your results. The 1Q is usually weaker for several reasons. We saw some one-offs as well, which will probably improve your results significantly. We have 4966, which impacted you. You had a higher level of seasonal default, health is usually weaker in the 1Q, residential.

So it's not that this result was poor, but in the 2Q, we will probably not see this rain impacting the regions that are typically outside of the 1Q. So this result was very good considering these points. And now I would like to know if your guidance is conservative. Are you working at the upper threshold of the guidance? Obviously, you have financial results, which can vary in the next quarters, but the higher CDI will definitely help this year.

And my second question is about your 24% ROAE, which is exceptional. Looking at Porto's past, that was about 15%, and since the 1Q is usually weaker, do you believe that this will be difficult this year in terms of ROAE? Or do you believe it will increase throughout the year, your profitability?

Domingos Falavina:

Nishio, I will take this question. We talked about this yesterday. And I said that if we were able to multiply this by 4, we would be at a very high level.

The only thing I would add to this statement is Health. Damadi will talk about our ROAE, but I was saying that what was happening is that healthcare is gaining a lot of share. And if you look at 2024, the contribution was 25%. So if you look at a number of years ago, this average goes down gradually.

This year, R\$180 million is 24%, 25% of the total contribution to income. And Health is very strong in the 1Q usually. So as these verticals change, this dynamic changes as well. And if you adjust your guidance, you will see that it's within the right part. This is a quarter that we are very happy with. All verticals are growing at a good level. Costs are under control and so on. But our guidance, I think, is still conservative. Of course, we have to see how our loss ratio evolves, but everything else is fine.

And when we look at the loss ratio for the insurance company, we are in the middle of the range of the guidance. This is what the margin Kakinoff said. Usually, the 2Q is better than the first in the insurance operation. So if everything goes well, we also see a convergence here. So it's still early to say.

And about ROAE, I am going to let Damadi answer.

Celso Damadi:

Thank you for that question. 2024 is a lower threshold, I hope, but that's complicated. Like we said before, in health, this is a higher weight. So we will have some quarters now where insurance will have a more stable loss ratio. And we will not see this increase throughout the year. March and April is showing that already.

So we are still comfortable with our guidance because it's difficult in insurance to foresee everything that's going to happen, the seasonal pattern and how frequent incidents will be. So we had some positive and some not so positive surprises, and this verticalization is giving us a more stable result.

ROAE with every year is also suffering less from our intangible factors in our assets. We acquired the portfolio from Itaú and other acquisitions. So from one quarter to the next, these intangible factors now represent 7%. By the end of the year, it will be less than 6%. So it removes some weight from this premium that we have received that we are now making use of with synergies.

We talked about synergies, but we also have synergies in residential. In September, July, and August, this will continue improving our figures. So there are many ongoing things that will make our competitiveness level higher, which will reduce our expenses, and as a consequence, our ROAE, I think, will no longer be at 15%, but I do not think it will be at 24% yet.

But as we said, above 20% is a good lower bound. And of course, if things work, the seasonal pattern in Health helped us with a ROAE of 40%. We are not going to see the same thing in Health probably. So I think diversification will give us more stability for our ROAE, and it will grow as we dilute the intangible parts of our assets. So there's a number of things happening, but it's still early to change our guidance.

Paulo Kakinoff:

We established this guidance last year. We are in the second cycle. And at the time, we made an internal commitment of using the guidance as a useful tool, not only for you to operate, but so that we could give some predictability with accuracy. Considering the typical volatility in Brazil, I do not think it would be appropriate to have adjustments after only 1 quarter.

Of course, according to your model, we would be at least at the upper bound of the guidance we presented. Fortunately, we do not see anything suggesting a lot of macroeconomic volatility in the 2H25, but Brazil has a history that reinforces this culture of having a guidance. So we try to give stable projections. So it would be premature to reduce this range at this point. I hope you understand, and we can give you good news as well over the next quarters.

Daniel Vaz, Safra:

Good morning. Congratulations on your results. I think most of my questions have been answered, but I would like to ask about the surplus capital that you have. We have talked in the past, and you know that this is not free capital for you to distribute, but if you have any updates and if you can give us a direction on the excess capital that you want to have in the future, and what organic opportunities do you see in the market? Thank you.

Paulo Kakinoff:

Thank you for those questions. This has been one of the areas that have the most activity in the last 13 to 14 months in the Company. The number of businesses we analyzed and things that could be relevant for us in theory has surpassed just a few cases analyzed.

So in other occasions, we have also manifested an interest in healthcare, banking and services. So this is a material effort from Dom's team. And what I can tell you is that we will potentially have M&A movements that will add some specific technologies to this growth and development journey that we are having.

And Celso is going to tell you about capital, but on the other hand, from what we are projecting in growth rates for the Company, it makes a lot of sense to maintain this level of free assets that the Company is maintaining. This is a part of our own philosophy. We are relatively conservative at this, with our M&A agenda, and the growth rates that we are projecting justify this excess capital.

Celso Damadi:

Adding to that, we mentioned this last year during our Porto Day, we said that if everything goes according to plan, there's a possibility of increasing this distribution. So it's all a possibility. We are also going to look at the M&A opportunities we have. Cash generation is very strong. So we also made an effort when it comes to risk.

The Company is becoming higher in solvency, our solidity makes us feel more confident. So we can grow with the Basel index with all of our business units without getting concerned about having partners or not, because we have enough capital and enough solvency. So you know what our growth levels are across our different businesses. This

makes us feel confident and our capital will serve to leverage our growth for the next 5 years.

And of course, according to possibilities, if at the end of the year we have more robust cash, we will talk about different payouts as we have done last year. So all opportunities are on the table, and this is something that we will do. So this is the growth level we will seek for the next few years, and this is what that capital is for. And of course, excess gets in the way, and we will talk about this throughout the year.

Tiago Binsfeld, Goldman Sachs:

Good morning. Thank you for taking my question. I would like to hear your take on Health. What is the competitive environment there? We see other companies reporting a reduced loss ratio this quarter, but maybe they emphasized that seasonal effect less. So do you think that this loss ratio will go down? Will there be a higher competition for price? Or do you have a niche business model? Thank you.

Sami Foguel:

Tiago, good morning. Thank you for the question. If we look at a long series in Porto and in the industry, the 1Q and 4Q are lower seasonally, and the 2Q and 3Q are higher. After the COVID pandemic, this changed, and we saw it gradually go back to pre-COVID levels.

And we said that we were seeing this happen before. So I think Porto is back at pre-COVID levels, and it bounced back very quickly in comparison to the rest of the industry. And we see that the industry converges in that direction.

I think the industry really has been working on fraud, new products, better pricing. So I see this with positive eyes. I think that the industry is healthier, and that's good. I cannot speak for others, but I do admit that we have to be rational when it comes to pricing. That's healthier.

Now about what we are speaking for, it's gratifying to see these effects. I think it's the first time that Porto has posted a loss ratio below 70%. And this truly manifests what we have been doing recently.

The medical team at Porto in the city of São Paulo, that's where we work the most, 40% of all consultations are with Porto's medical team. Typically, surgeries and everything else from these consultations is done there. So this has had a very positive impact.

And there are new products that Dom mentioned. So not a lot of new things here. I think we are just being consistent. So this is a major sectorial opportunity of having a better period. The industry is going back to pre-COVID levels after some significant price adjustments in the last few years and after some measures to combat waste and fraud.

Marcelo Mizrahi, Bradesco BBI:

After maybe 20 years as an investor, it's an honor to be here on the other side of the table and be a part of the call. Most of my questions have been answered. So I think there's one outstanding point on competition. Tiago mentioned competition in Health,

and I have a question about your competition in Auto, if your loss ratio has been helping to keep competition under control.

And another question about your cross-sell strategy, and that's one of the main upsides that the Company has. We have seen commercial expenses at Porto Saúde going down in the last quarters. So it was about 9% and now we are at about 6% of the premium, and that has been going down consistently in the last few quarters. Is this connected to any changes in your cross-selling strategy, brokers who are not dedicated to Health that are now selling health products? Has that been helping you with this dilution?

And also, since we are talking about Health, in vehicles, in Auto, the commercial expenses have gone up. So I also have that question. I know I asked 3 questions, I apologize.

Sami Foguel:

So cross-selling in Health with brokers has grown significantly. Dom mentioned this. And in the last 2 months, we have had over 2 thousand brokers a month. So this has been working, this has been progressing, and that's very positive.

What we are seeing that's different is a new returns process. Usually, the industry works with 6 months paying commissions. So in the last years, it went up to 9 months and 12 months, and now we are at 15 months.

So why does that happen? This is prolonging our permanent tail. And this, in addition to the fact that Porto is privileged to work not only with specialist brokers, but since we also have generalist brokers who like working with Porto, this has given us some comfort, and we have increased the deferral of this cost. This happened in the 4Q24, and we do not have the full impact of that. And now in the 1Q, we are seeing the full impact of that.

This is explained in our notes. But I think fundamentally, Marcelo, and it's nice to talk to you from the other side, right? It's important to note that this is a consequence of innovation since brokers, especially in Health, since we depend on them, we are seeing how they behave with Porto. There might be brokers who have an intention of bringing an account that will stay for less time, and they will know that Porto is not the best place for that account.

Rivaldo Leite:

Mizrahi, about the markets loss ratio, I think this is a great moment because the industry is almost at a 100% level in automobiles. So whenever that happens, there's a tendency to have readjustments. And competition is also flat, so we see this as a very good moment.

There's a slight increase in commissions in insurance companies, and there are factors behind that. First, we are growing a lot in non-auto segments, and these products have a very good level of profitability and their position is better. In Auto, we had a slight deviation this quarter, and we are already adjusting it. So I think this is well in line, and it's within our projections.

Domingos Falavina:

If I can just add to that, Mizrahi, it's nice to hear from you, and if you look at the results from the 3Q24, in healthcare, we made a comment there that Sami mentioned. We got half of the 3Q, the 4Q and half of the 1Q. So this deferral is a bit constant. And except for the 4Q and 1Q, it will be more recurring and stable than if you look at the 2024 average, or the 1Q and 2Q of 2024. But there's a paragraph there that explains what we did very clearly.

Thiago Paura, BTG Pactual:

Good morning. It's a pleasure to talk to you again. Since most of the industry questions have been asked and answered, I am going to try to ask about your financial results, which might not be as transparent, but I would just like to understand this. We understand your capital conservation strategy clearly, we understand what is in your treasury. But to put it simply, looking at your assumed portfolio, considering that you are more compliant to the CDI and given the result of treasury in the 1Q in comparison to your investment portfolio and the guidance, I think there is an upside.

So I would just like to understand, throughout the next quarters, will there be something that is not on our radar or if you also have this feeling of optimism. I understand that nothing has changed in your strategy and allocation, but I would just like to ask that follow-up question.

Paulo Kakinoff:

So Thiago, I think Celso will add to my answer, but it's great when you get a question about possibilities, because there's also the possibility of getting a positive surprise. It's reasonable to say that the projections for this year and stabilities are much more moderate than what we saw in the 4Q. And here, we are talking about the market overall. And we are also considering the possibility of having positive surprises here, specifically.

Anything to add, Celso?

Celso Damadi:

Thiago, we continue with the same guidance. We may have some positive surprises. Our cash generation is a bit higher than what we had imagined. So for now, we are in line with our guidance.

The situation is still complex, if inflation will go up or down, but we do not have that scenario defined, although we have nearly 100% of the CDI. We like this kind of medium duration because we like to protect our liabilities from inflation. This has been helping us. So it depends on the average CDI and how inflation will behave in the next months.

And our cash generation is really very robust. So for now, like we heard, it's still early to change anything in our guidance. Maybe we are at the highest bound of the guidance, I do not know, but it might be.

Paulo Kakinoff:

Thiago, it's also important to underscore something that Celso said, what are our assumptions and our strategy in financial assets. So I think this will be relevant for your models and the financial revenue that we might have.

And our focus is to protect our capital from inflation, and not CDI. In our historical series, our longer historical series, 10, 15 years, we have been able to do both things. But of course, this is not what we suggest you anchor your projections on. With CDI, yes, but with protection against inflation, we should not change anything.

Domingos Falavina:

I did this when I came in. If you look at the returns from Porto 5 or 10 years ago, they are higher than CDI, and far higher. I had calculated this in 2024. It was around 140, and I recommend that you do that. And there was also an inflation component, and I can explain it, but I think the most qualified person that can do this was the person responsible for this result.

Izak maybe can tell you what impacted this quarter.

Izak Benaderet:

So with our allocation, we will not have a gain versus the CDI. It will be a bit lower than that. So overall, as we see in our guidance, it will be a bit below CDI, but there are other variables that might change this, especially in our allocation with the stock exchange, which can bring us closer to the CDI levels.

But as we said, our portfolio should not be benchmarked by the CDI. So this allocation is important, it's significant, and when we conclude the cycle and when we have some time for interest rates to go down, this might have an advantage versus the CDI. But it's likely that this will not happen this year if we do not have any help from other assets outside of our allocation.

Operator:

So since there are no further questions, I would like to invite our team of executives for their closing remarks. Go ahead, sir.

Paulo Kakinoff:

So on behalf of everyone here at Porto, I would like to thank you once again for your time and for your interest. We remain open, and do not forget to send your questions and suggestions to our Investor Relations team, and we hope to answer them in the best way possible.

Thank you once again, and have a great weekend.

Operator:

This concludes Porto's conference call. Thank you for listening, and have a great day.

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