

Y 2021 Earnings Call

Company Participants

- Alexandre Riccio de Oliveira, Vice President Of Technology, Operations And Finance
- Helena Lopes Caldeira, Financial and Investor Relations Officer
- Joao Vitor N. Menin T. de Souza, Chief Executive Officer

Other Participants

- Flavio Yoshida, Analyst
- Goffreey Elliott, Analyst
- Henrique Navarro, Analyst
- Jorg Friedemann, Analyst
- Otavio Tanganelli, Analyst
- Pedro Leduc, Analyst
- Thiago Batista, Analyst
- Unidentified Participant
- Yuri Fernandes, Analyst

Presentation

Operator

Good morning, and thank you for standing by. Welcome to Inter Fourth Quarter 2021 Earnings Conference Call. Today's speakers are Joao Vitor Menin, CEO; Alexandre Riccio, VP of Finance; and Helena Caldeira, CFO and Investor Relations Officer.

Please be advised, that today's conference is being recorded and the replay will be available at the Company's IR website. At this time, all participants are in a listen-only mode. After the prepared remarks, there will be a question-and-answer session. (Operator Instructions) All questions will be answered in the language we receive. Please note, there is a translation button in the right side of your screen where you can choose the language you want to hear.

Now, I would like to welcome one of your speakers for today, Mr. Joao Vitor Menin, CEO. sir, the floor is yours.

Joao Vitor N. Menin T. de Souza {BIO 19357380 <GO>}

Good morning. Thank you, everyone, for being with us. We're going to start our 4Q 2021 results for Inter. Just to highlight, it's our first time that we're doing this presentation in English. The reason for that as of today, we have more than 50% of our shareholders

being foreign investors, so we're going to try to make that in English to accommodate everyone, but also we have the translation for the Portuguese -- for the Brazilian investors as well.

So again, thank you very much. Myself, Helena and Alexandre want to speak about the main highlights of 4Q 2021 and also for the 2021 year-end results. As usual, I'd like to spend most of the time here, myself, talking about some strategic things that are achieved on 2021, later Alexandre going to talk about the financials and later on Helena is going to talk about the IR.

So I'd like to talk about three things -- three topics on this first meeting. First of all, I'd like to talk about our people. I would say that we have the earnings release and the financial statements available for everyone, and so I'd like to spend most of the time here talking about intangible assets and our people probably the best asset -- that we have here at Inter.

On 2021, we were able to close the gap on some very strategic positions here at the Inter such as investments, risk, credit analysis, accounting and data. On these five important positions, we brought very talented people to help us and we're starting to see the results on that. I'd like to say that this is not expanding, but thin investments and therefore I would say that we get 2022 well prepared to grow more, to grow in a sustainable way as we always highlighted on our previous earnings call. We have a good balance between all the verticals here and therefore we can grow despite challenging a macro environment for 2022.

The second topic is about our revenues. I'm very proud that we were able to grow almost 3 times -- 3 threefolds on our revenues from 2020 to 2021. The reason for that is because we have been working for a while on our revenue, revenue stream diversification.

As of today, we have 10 big groups that generate revenues for us. We can split them on credit and service. We have five different credit portfolios. We have five different service fee generation products. I would like to say just to do -- to use a very Brazilian thing, we are like a Flexcar. So we can grow faster on the credit. We can go faster on the service. We can grow more on the collateralized credit. We can grow less on the collateralized credit. So this ability to really drive our earnings is very important for us, mostly in a very tough macro environment as 2022. So we are prepared to keep growing our revenue. So we should be growing our revenue a lot as well in 2022 in a very safe way -- in a very balanced way.

The last thing I would like to highlight it's about innovation and growth. We are still growing a lot, not only number of clients but also number of products, CSI, revenue, deposit base and so on. But also as you know, we used to have five big verticals and I'm very proud to announce that as of today, we were able to put in place our sixth avenue, which is the remittance business. And for us to achieve this very good, very -- a strategic new vertical which is the remittance, we need to buy USEND business on the last quarter of 2021.

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I'm very proud of this project -- of this initiative. We know that there are some skepticism on the market about this initiative. Some investors say about losing the focus, our sales not being able to compete in US, but I disagree. As in 2019 when we launched our InterShop, most of the market was also skept [ph] about our chance to compete and to prevail. And we were able to do depth and as of today, most of the digital banks are trying to mimic ourselves on this initiative.

So very excited with this business. I'm sure that's going to be a very important vertical -- the six vertical for Inter going ahead, and very are excited with the diversification of revenue [ph] and very excited also with the talented people that we brought on 2021. I believe that these three key things, we can keep growing our business, keep innovating, keep improving revenues, keep diluting our expenses, and very excited and prepared for 2022, again despite of the tough macro-environment that we might face ahead of us.

With that, I'm going to hand over to Alexandre who is going to deep dive on the numbers for our quarter of 2021 full-year results. Thank you very much, Alexandre. We shift to you now. [ph] Thank you.

Alexandre Riccio de Oliveira {BIO 20402984 <GO>}

Thank you, Joao, and hello, everyone. So good morning and thank you for participating in our results conference call. So as Joao said, first time, we're doing it in English and very good to be with everyone.

I will now go through the highlights of the fourth quarter end of last year. So to start, the fourth quarter did not bring new things in regards to the macro scenario uncertainties. So the environment in Brazil is still turbulent and we experienced several civic hikes, so the interest rates keep coming up in Brazil, putting it as a challenging scenario, let's say. But despite that, we had once again a very strong execution in a business of high growth, scalable and resilient.

We reached our goals in revenue per client which is the ARPUs for 2021 with a very good margin, showing the power of our execution and capacity to cross-sell in our customer base. The key drivers of long-term value creation in our business, such as client growth, app login engagement, revenue growth, amongst others continue on the right path as we keep improving our platform and our Super App.

Getting into the numbers, I will start with some growth highlights. We reached 16.3 million clients last year, 17% growth quarter-on-quarter and 93% year-on-year, adding more than 8 million new clients to the base in 2021. Our ARPU which I mentioned earlier reached BRL218, an 8.7% growth year-on-year, making us very proud about the number, especially in a year with still such a high net adds on clients. So again 93% growth in the client base and we are still able to grow by 8.7% in our ARPUs.

Our cost per acquisition cost stayed healthy for the quarter at BRL28.79, with a 6% reduction over the last quarter. Cost to serve was stable on a manual comparison with the slight increase on the fourth quarter if we compare to the third quarter. Although this

metric does have some impact of inflationary pressures, we believe that this increase is temporary. Our CTS has a lot of room to decrease. We have several opportunities that already known and we will tap on some of them during our execution in the year of 2022.

Our cross-selling index maintained the positive trend, reaching 3.44 with a good evolution when we look at individual cohorts. So we're also happy there, so cross-selling is happening as we need. And finally our NPS, the Net Promoter Score stayed at the excellence level, right at 84. We're also happy with that.

Moving into our business avenues, I'll start with the day-to-day banking. So in day-to-day banking, we reached BRL9.9 billion in demand deposits, very good growth, 8.3% quarter-on-quarter and about 50% year-on-year. We transacted in cards about BRL14.2 billion in the fourth quarter, that was our GMV in the fourth quarter, 22% growth quarter on quarter, and we did almost BRL43 billion in the year, 93% growth year-on-year. And we were able with that to increase our revenue base in cards for BRL453 million, that's a 113% growth over the year. And we're happy that this evolution is materializing everything that we've been talking about when it comes to the card business. So we've talked about all the evolutions that we have promoted in the platform, and when this comes with numbers, that's really good.

Moving into InterShop, our marketplace, we had a tremendous 2021. We transacted BRL3.5 billion in GMV, that's a growth of 200%, and we're very proud about all the team as we had this goal which is almost like a dream because of the size of it, moving from just above BRL1 billion to BRL3.5 billion. So we're very happy that we were able to reach and again motivated to keep executing there.

Our revenues in InterShop went to BRL246 million in the year, 281% above 2020, and we reached a take rate of 7.75 in the fourth quarter, 1.5 percentage points above the take rate a year before. So good there as well, with the net take rate on the fourth quarter at 1.2%. So a lot of people ask us about our capacity to have a positive net take rate and it's happening. So 1.2%, very happy with that, that's up 0.5 percentage points quarter-on-quarter.

In investments, we also had very good highlights. So we increased our revenue base by 101%, reaching BRL100 million. That's a big highlight for the year, we reached 2 million clients with investments with us of some sort, and we finished the year of 2021 with BRL57 billion in assets under custody, a growth of approximately 30% in the year, despite what we saw in the equity markets that could put some pressure on it.

We became the most complete investment platform in the country. Being the only with international online brokerage hosted in our app and we also launched structured products, trading robots and many other features that make our Super App the best one for investments.

In insurance, we reached 839,000 active clients in the fourth quarter, that's 229% growth, very proud about that. Our revenue base achieved BRL88.9 million, and we sold during

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the year, 864,000 policies. So very good there. Our execution of what we call contextualized sales and premium are really paying off as we go.

Going to our final avenue here which is credit. We reached BRL18.6 billion in our total credit portfolio, growing 97% year-on-year. Our origination reached BRL5.8 billion in the fourth quarter so best quarter of the year. Totally almost BRL20 billion in 2021, that's 124% higher than 2020. Our loan loss provision reached 2.7% of the portfolio, while the NPLs stayed at -- so the NPLs over 90% -- overdue over 90% stayed at 2.8%. We're confident that it's very important to have a diversified portfolio of credit to have a good credit journey in Brazil, and we've been able to deliver it again in 2021, including a lot of collateral every time that's possible.

Some final numbers. We grew our revenue base by 130%, reaching BRL3.2 billion. Very nice to see a company that can have this type of growth on a revenue base that's already large. So we went from less than BRL2 billion -- much less than BRL2 billion to BRL3.2 billion. We reached -- we grew more than 140% in our fee income, reaching BRL1.3 billion with a mix that as Joao Vitor mentioned earlier, really differentiates us from all the comparables. Seven groups of revenues within fee with the most relevant one with only 35% of this total that's something should be proud about and something we must keep working on.

We finally -- final remarks. We improved our cost to income ratio by 6.1 percent points in the year, showing that in terms of operations, we've been -- we're starting to get operating leverage. The cost to income finished the year at 82.8%. And finally, we finished the year with a net profit of BRL78.4 million as in the adjusted with the Basel ratio -- Tier 1 ratio at 44.3%, giving us a lot of room to grow and to keep executing our strategy.

To finish, I would like to thank our stakeholders, including our clients, shareholders and mainly our team, so close together as we execute.

I'll pass the word to Helena for some final remarks. Thanks, everyone.

Helena Lopes Caldeira {BIO 21222037 <GO>}

Hello, everyone. Good morning. Thank you for joining us in this earnings call. Before we go into the Q&A session, the idea here is just to quickly go through to actually highlight that as disclosed on a material fact that we did in December, we continue working on a new design for our corporate reorganization. And as soon as possible, we will communicate to the market about the next steps, and we are excited to design something that we believe that will work for all our different stakeholders.

We really appreciate your participation on this earnings call with us, and we believe we can now go into the Q&A session.

Questions And Answers

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Operator

Okay then. We will now begin the question-and-answer session. (Operator Instructions) And our first question comes from Otavio Tanganelli from Bradesco BBI. Otavio, we are now opening the audio so that you can ask your question live. Please go ahead.

Q - Otavio Tanganelli {BIO 20615779 <GO>}

Hi, everyone. Joao, Alexandre and Helena, thanks for taking my question. I wanted to get a little more color on the losses related to the credit assignments that you mentioned in the press release. According to our estimates, this generated a loss of something close to BRL70 million in the quarter. So I wanted to understand a little bit, the rationale on that, if there are any specific lines? Was this related to credit cards or mortgages? And for us to understand how recurring should this be when we think going forward? Thank you.

A - Joao Vitor N. Menin T. de Souza {BIO 19357380 <GO>}

So, hello, Otavio. Joao Vitor speaking here. Thank you for the question. Actually, what we did on 4Q 2021, we sold credit card portfolio, so we're talking only about credit card here, okay. We sold credit card portfolio that was classified as H and H and H [ph] also to a company called Meu Acerto. As you might recall, we bought this company maybe one year ago. We're very excited with the digital collecting capability of this company. So we are trying to do our EBITDAs [ph] here to see how more efficient Meu Acerto will be in collecting our credit portfolio that are classified as H, not as HH.

So for the first time, we sold H credit card portfolio. We believe that the performance for Meu Acerto is going to be higher than the performance of our internal collection product here at Inc. As of today, we do a collection when you come from H to HH of about 10%. We think that we'll be able to get more close to 15%, 20% with Meu Acerto doing the digital collection process. So that was the reason for us to sell the H credit card portfolio. If it works well -- we believe if it work well, we will keep doing that, of course, do depends on the size of the credit card portfolio classified on H, and that's the reason why we did that.

About the losses, we didn't have a loss on sale in this credit portfolio. It's just the way that KPMG put on this statement because actually, to us, we are at past this BRL70 million as NPL as provisions on our income statement. So it's just a managerial way of looking. So there were no sale, no losses of BRL70 million on this credit card portfolio assigned to take. So that's the reason why and that's how we should reach the correct way for the assignment. So there wasn't a loss of BRL70 million on the credit side.

A - Alexandre Riccio de Oliveira {BIO 20402984 <GO>}

Joao, let me just touch one quick point. So just when we foresee our target, this -- the expense itself is usual cost of risk, so business as usual. But there is the disclaimer of the sale, okay. So cost of risk this is as usual, that's what it was.

Q - Otavio Tanganelli {BIO 20615779 <GO>}

If I can just one follow-up. And sorry for my ignorance here. But if those credits were already written, not should they flow through the P&L anyway? I didn't quite get that.

A - Alexandre Riccio de Oliveira {BIO 20402984 <GO>}

So basically, if you look there, we did two credits that were on level H that's before writing off, and on HH which is at the right off. The ones that we're on this level H, they are the ones that caused this impact, that's the reason why.

Q - Otavio Tanganelli {BIO 20615779 <GO>}

Thank you, Alexandre, super clear.

Operator

Perfect then. Thanks for your question. And now the next question comes from (inaudible) we are now opening the audio so that you can ask your question live. Please go ahead.

Q - Unidentified Participant

Hi. Good morning, Joao Vitor, Alexandre and Helena. Thanks for the call and taking my question. I guess, do you have any color, outlook or guidance that you will be providing on your revenue per client and how that should about, whether it's for 2022 or a longer-term outlook? And how you think you'll be able to monetize the clients also similarly, in terms of a long-term profitability outlook that you're thinking about just to kind of help us think on how that's going to evolve, not just for this year, but over time as you continue to monetize your clients? Thank you.

A - Joao Vitor N. Menin T. de Souza {BIO 19357380 <GO>}

Okay (inaudible) Joao Vitor speaking here. Thanks for the question. Yes. We see a good ultimate foreign monetization. And just to recall, as I mentioned earlier, the reason why we're confident of the monetization is because we have 10 big groups and big verticals to monetize our clients, either on credit or fee income. And if you break that down, five different one for fee income and five different one for credit. This balance I have been stating that for a while. It's very important for the business because we can face a bad macro environment. We can face a change in the regulation, for instance, from the regulator -- from the central bank suppose that they want to increase the Tier 1 requirements for payroll lending for ace, so we don't rely only on payroll lend.

Having said that, I believe that we're going to keep growing the monetization, both on fee income and credit going forward, also because even having a bad macro-environment ahead, as we mentioned also many, many times before, we do have a big chunk of our credit portfolio as a collateralized one. So it's safe, so we can keep growing that fast. Of course, we're going to adjust that so for instance on credit card, we're going to be more conservative this year. Actually, we are at start being more conservative on credit cards on last two months of 2021.

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So we're excited that our cashback is going to keep improving. And also as I always have been stated, we wanted to be a good balance and good breakdown between fee income and NII. If you take for instance our monetization (inaudible) on the floating, on the interchange and on the InterShop, we printed very, very good numbers for Q2 2021. So the outlook for us not only for 2022, but for 2022, 2024 is very positive on the monetization.

I do think (inaudible) tthat one thing that differentiates in (inaudible) our competitors. It's is a very unique platform that we built that have this many levers for us to pull to speed up monetization. So very good outlook for monetization ahead for next two, three, four years, whatever. And also again with another vertical, the remittance business ahead, big, big a market -- a big addressable market. So very excited with the negotiation going ahead, and again pretty confident that we're going to keep diluting our costs and improving the cashback and keeping the CTS stable or even the credit we can improve the earnings for the business ahead. So that's my view for the next maybe couple of years.

Q - Unidentified Participant

Great. Thanks, Joao. That's helpful. Maybe a follow-up if I can. You grew your loan portfolio close to 100% in 2021, and you mentioned, you'd like to be a little bit more conservative particularly, on credit cards this year. Any color on how fast the loan portfolio would grow this year? Should we expect this year that you have faster growth on fees relative to loans because of that? And then within the segments, as you mentioned, you probably grow more -- even more collateralized better than credit cards? Is there any color in terms of the different growth rates in the different loan portfolios for the year?

A - Joao Vitor N. Menin T. de Souza {BIO 19357380 <GO>}

Okay, good. Yes, I do think and I can not assure you that, but I do think that for 2022, our growth is going to be more robust on the fee income than on NII. The reason for that are two. Our first as I mentioned, we're being more conservative on credit underwriting, mostly for our credit and also for the secured credit portfolios, mortgage and payroll loan. It's a matter of the market to be more appealing to contract credit. We see that the trend for -- not only for Inter platform, the whole markets for mortgage business and for payroll loan business -- payroll loan business for 2022 is not very strong.

Having said that, we have a small market share on these two segments, so we have room to grow faster than the markets. So when you combine our sales to be more conservative on credit card and a worse outlook for credit origination of our mortgage and payroll loan, our credit portfolio growth for 2022 for sure is going to be is smaller than it was on 2022. How much smaller, hard to say. Let's see. We have a credit package that's might be implemented in March. There are some reports on the newspaper today, so it's very hard to say. But for sure, we're not going to grow in the same pace that we did in 2021. But again we have the tools. We have the fund. We have five different verticals to keep growing and to keep gaining market share on the credit business amongst the Brazilian banks. So that's there the outlook I've got.

Q - Unidentified Participant

All right. Thank you very much, Joao Vitor, that's helpful.

Operator

Thanks for the question, (inaudible) And the next question comes from Henrique Navarro from Santander. Henrique, we are now opening the audio, so that you can ask your question live. Please go ahead.

Q - Henrique Navarro {BIO 16188960 <GO>}

Hi. Good morning. My question is on breakeven. I understand this is not a guidance but maybe a softer guidance that have eventually the breakeven with (inaudible) was going to be a 2023 story. Now do you believe that with the US initiative and things like that? And do you believe there is the risk of postponing this breakeven beyond 2023? Thank you. And also, if you can comment on the US initiatives, how is it going? And if you can share or reverse, I would appreciate. Thank you.

A - Joao Vitor N. Menin T. de Souza {BIO 19357380 <GO>}

Okay, Henrique. No, I don't think that the US initiative and other things that we're putting in place here, as I mentioned last year, put many important as key executives to help us with investments risk, credit and so on. I don't think that these things are going to postpone the breakeven or the profitability beyond 2023. I think it's the opposite. I think that the business -- the remittance business which we call today are six vertical, it's not the business that we need to put a lot of CapEx and also OpEx. I mean it's a cash cow business. It's running. It's profitable. So I don't see that's jeopardizing our earnings ahead. So it's the opposite of that.

I see a good trend also despite the macro on InterShop, Inter Invest and a lot of our initiatives here flow. And so I think that's, again, not as a guidance, but there was a soft guidance. We see breakeven on 2022. Actually, see improve on the ROE despite ourselves having a low, low ROE in 2021, but I see improving for our budget here, improve our ROE on 2022 despite the new initiatives.

And also just to comment on the US instructive. I do believe -- and again this is my belief that it was one of the most important things we did at Inter was to acquire Houston business. And I'd like to remind when we launched InterShop, and it was us something different, something that the market was skeptical about, but -- and I would say that it's about our intuition here about this business. I believe that we need but it's not a matter of should or should not go, but we need to go there to start with the remittance business as a cash-call and later on, starting to put another layers of monetization of engagement on our app, (inaudible) which by the way is going to be one single app mostly on the second half of the year, maybe third quarter of this year. So it's going to be like Uber app. You will see only Inter app. You might choose to use that in US and Brazil. We're going to have different products in US and Brazil like we have Uber face that's going to be one single app.

So -- and having this initiative that made us this unique Super App in Brazil, mimic to our app in the US, I believe that's going to be a very compelling start, not only for the market

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but mostly for the clients. We do have also soft guidance of having 1 million clients a year into United States. And with this single app and if you get one million clients there with one single app that's called the Uber app UX, just to emphasize, I would say that we're going to be very well positioned to really have a global account running with scale.

So again very excited with this acquisition. I would say that I believe it's going to change our business as InterShop did when we launched that two years ago -- two and a half years ago. So that's my views. That's my view for depth. And actually, it's starting to get a good traction amongst the US rather, it's not cities, immigrants and also amongst Inter clients in Brazil willing to have global accounts where you can saving dollars, you can use your debit card. So again very excited with the outlook for this new vertical.

Q - Henrique Navarro {BIO 16188960 <GO>}

Thank you very much.

Operator

Thanks for your question, Henrique. And now, the next question comes from Flavio Yoshida from Bank of America. Flavio, we are now opening the audio so that you can ask your question live. Please go ahead.

Q - Flavio Yoshida {BIO 20300800 <GO>}

Hi. Good morning. Good morning, guys. So my question is -- I actually have two questions if I may. The first one is on InterShop. So we saw a higher net take rate in the last quarter of the year, even considering higher cashback levels. So what was the main reason here for the increase in the gross take rate? And can we consider this trend of a higher net take rate going forwards?

And then my second question is on the client base. So the client base increased strongly in the fourth quarter, and at the same time, the customer acquisition costs reduced. So was there anything different on the strategy here and the client growth strategy? Or can we assume that competition is somehow becoming smoother? Thank you.

A - Joao Vitor N. Menin T. de Souza {BIO 19357380 <GO>}

So thank you for the question. Let's start from the last one. I do believe competition lessened, for sure, and it's quite easy to see that if you -- anyone can just download for instance app and platform and you you'll see many of the competitors dropping strongly in terms of installs from 3Q to 4Q. I could mention one big one, but I want to be polite here, but we have a guy that dropped dramatically. So I do believe competition is getting smooth, yes, but not only that. I would say that we have built a very good thing here to engage the clients to bring new clients with a decent CAC. We have been stating for a while that our CACs not going to blow to the roof and it didn't happen, and I believe that's not going to happen in 2022 and it's not going to happen in 2023. And the reason for that, not only we have this talent team working on that, but also the value proposition. Ourselves in this and I'd like to say this word, this amazing unique Super App helps a lot us to engage and to bring clients through referrals. So it's really better than the other

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competitors or app. And this make a lot of difference for the customer by the end of the day. So this is one thing.

Going to the InterShop question, I'm very excited with InterShop. When we launched InterShop two years ago, our vision was we wanted to be a gateway between the buyers that have their credits, their payment capability at Inter and the merchants. We do know that this connection between merchants and buyers was always, I would say, supported by the banks because at the end of the day, you need to have a credit card limit and you need to have a payment capability for you to buy either online or offline.

What we wanted to do at the time, our vision was to improve the efficiency of this gateway. So far instance, when we do our end-to-end connection, we skip the juice and the ER rates [ph] that you see on the market. So we can be more efficient for the merchants, so they can pay us a higher take rate than they used to pay. And not only that, on their marketing cost for these retailers, we can be more efficient as well because they only pay on conversion, so they can pay us more.

So it's a more efficient way for us to drive sales -- good sales for these clients -- for these partners. and not only for instance, when you have the end-to-end connection with these retailers, we don't have frauds, so they don't need to spend a lot with fraud. So some more intelligent and efficient way to connect buyers and sellers. That's the vision for InterShop. And we believe that with this capability, we can I would say have the fair monetization for Inter, and not only for Inter, but other banks that are mimicking our product because that's the right balance between what the banks can monetize on this type of sales and what their retailers can monetize on this type sales.

And lastly, we see a big competition from Chinese companies and so on, and the outcome for that the Brazilian retailers, they are looking for us more and more and say, look, I want to really be our exclusive part of our this vertical, for instance, shows support and so on. And they realize that with us, they can really be our omnichannel initiative and therefore to compete with Chinese marketplace, for instance.

So I see a very good transparent to shop [ph] on 2022. This (Technical Difficulty) competition amongst the retailers are positive for us, so very excited with the type of gateway that we built, and I would say that InterShop is going to help a lot of retailers to compete in a more efficient way ahead. So again a really lot InterShop initiative, so I believe that's something will drive a lot of expectations to everyone. So it's a win-win -- I'd say win, win, win situation, good for the client, good for Inter which is the gateway and the good for the retailer. So that's my view on that.

Q - Flavio Yoshida {BIO 20300800 <GO>}

Okay. Thank you very much.

Operator

Good questions, Flavio. And now the next question comes from Goffreey Elliott. Goffreey, we are now opening the audio so that you can ask your question live. Please go ahead.

Q - Goffreey Elliott

Helena, thanks very much for taking the question. I wanted to come back to this assignment of credits impact because I think it's something that's going to be confusing for a lot of us. Maybe just make it very simple, what would be NPL ratios have been both total NPLs and credit card NPLs if you had not carried out that transaction in the fourth quarter?

A - Helena Lopes Caldeira {BIO 21222037 <GO>}

So, hi, Goff. So the NPL ratios for the credit cards, they would probably be something around 6.5% to 6.6%. If we had not done this non-performing loan sale, so this is -- like this would be like what would still be on balance. This was something that instead of going to write off, we did the sale for the (inaudible) Alexandre, did you want to complement?

A - Joao Vitor N. Menin T. de Souza {BIO 19357380 <GO>}

Actually, -- sorry, Alexandre. It's Joao Vitor here. I'd like to just complement that on top Goffreey asking. So the NPL for credit card would go up slightly, but on the average, the NPL for our credit portfolio wouldn't change materially. The reason for that again a good diversification between credit cards, mortgage, payroll loan, agribusiness, SME and so on. So just to emphasize that the change on the NPL for the credit portfolio it's not material at all, so just to emphasize that.

Q - Goffreey Elliott

Thank you. And then just stepping back in terms of credit trends that you're seeing in cards, in particular, a clearly more difficult period for the Brazilian economy growth slowed down a bit. You've mentioned you've become more conservative. But can you discuss the early indicators that you're watching on that portfolio and what's that showing? Thank you.

A - Joao Vitor N. Menin T. de Souza {BIO 19357380 <GO>}

Very good question, Goffreey. As I mentioned earlier, we improved a lot the quality of people here in 2021 in terms of risk management and credit management. Both Thiago Garrides and (inaudible) joined us last year. And I would say that as of today, we have more tools, more, I would say, KPIs or metrics that we follow day after day in terms of credit performance, mostly on the unsecured ones because on the margin payroll and we don't -- I would say we don't correlate not that because it's a different approach, but on the credit card, for instance, we -- and two of them, I would say that's the first and therefore and is delayed metric. So which is one we can try to sterilize the impact of growing the credit card portfolio or else decreasing the credit card portfolio, so we have the right view on the trend and realize that as I mentioned, for the last two months of 2021, these metrics, they had a deterioration, not a big one, but they had. So for instance, we active reduced the underwriting for credit cards for one of their agents that we have here in our model.

So I would say that we have been more active and with more managerial tools to really try to be ahead of the trend in the market, but I see -- and not so good trends for NPL overall on the market. But again our self as having a small credit card portfolio, we can be more assertive and we can skip a big NPL formation on this segment.

So we're very confident that despite the macro and with these tools and our self being more conservative for the best two, three years on the credit card business, we can keep having our NPL on this 6%, 5%, 7% ballpark going forward. So we -- I would say that we have good tools today tool to do our best. Of course, we cannot control the environment -- the macro environment which I believe is going to be harder ahead, but we have the tools to make sure that we have a good NPL formation for credit.

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Q - Goffreey Elliott

Thank you.

Operator

Thanks for your participation, Goffreey. And now the next question comes from Jorg Friedemann from Citibank. Jorg, we are now opening the audio so that you ask your question live. Please go ahead.

A - Joao Vitor N. Menin T. de Souza {BIO 19357380 <GO>}

Jorg? Maybe we could read your question. I don't think he is online.

Operator

Yeah. I don't see him here.

Q - Jorg Friedemann {BIO 15405752 <GO>}

Yeah. Can you hear me now?

A - Joao Vitor N. Menin T. de Souza {BIO 19357380 <GO>}

Yes, Jorg, we can hear you.

Q - Jorg Friedemann {BIO 15405752 <GO>}

Sorry for that. I was on mute and didn't know. So I would like to follow up on the question on credit assignment is still. And the second question. So first on the follow-up. That part of active credits that was in age, I understood explanation that there was no real loss. However, I do not understand why was that book at against P&L? If it was on age since the previous quarter, it could have already been fully provisioned. So the assignment should be booked against provisions, not against the P&L. So the question is part of that was not previously booked in the category age and that is why you had such an effect in this quarter. So this is the first question.

And the second question is just if you could provide a bit more color about the cohort changes that took place in this quarter? What were the reasons and what really changed on those specifications? Thank you.

A - Alexandre Riccio de Oliveira {BIO 20402984 <GO>}

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Hello, Jorg. Thank you for the question. So on the question -- the first question, the credit assignment. So it's just a matter of compliance with the rule. So what happened is, let's say, 90% or more of the expense was already done as provisions. But when you do the sale -- the final sale of this credit that is in each, you have to reverse revenues and imply a new expense on a different line. So the net effect is about the same, but you do have to - we did give the disclosure of the entire amount that's leaving the balance sheet, okay. So it's -- in the way we look at it managerial, it's a cost of risk just like a provision. But in the way we publish it, we wanted to make it clear and obviously follow all the guidelines that we have to follow. Okay.

Q - Jorg Friedemann {BIO 15405752 <GO>}

Alexandre, if I understood correctly, and please explain me for not but what you're mentioning is that there were changes within lines but the net effect was pretty much zero.

A - Alexandre Riccio de Oliveira {BIO 20402984 <GO>}

Yeah.

Q - Jorg Friedemann {BIO 15405752 <GO>}

But because you removed provisions on the one hand and you booked these losses against P&L in the other line, correct?

A - Alexandre Riccio de Oliveira {BIO 20402984 <GO>}

That's it. Jorg, imagine if you have like, let's just say you're going to do the sale of BRL70 million and you do have an outstanding balance of provisions of BRL70 million, right. Once we do the sale, we do like we reverse that BRL70 million, which is like revenue and expense to BRL70 million again under a different name, let's say, which is the credit assignment, so zero net effect.

Q - Jorg Friedemann {BIO 15405752 <GO>}

Okay, perfect. Clear. Thank you.

A - Alexandre Riccio de Oliveira {BIO 20402984 <GO>}

Yeah. On the cohort, we've been doing a lot of work internally with our -- with databases and with our Data Lake, [ph] and we've done some improvements and once we were going to publish the numbers using this Data Lake, we just thought we should adjust all the trends so that everybody is on the same page on some changes that happened, okay.

A - Joao Vitor N. Menin T. de Souza {BIO 19357380 <GO>}

Yeah. It's Joao Vitor. Let me just -- this is important because we have put in -- we have been putting a lot of energy and a lot of cash, people, time, everything on improving our Data Lake. And I'm very proud that as of today, we have a very good Data Lake here at Inter. And with this Data Lake, when we start pull the data from the system, and at the

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past, we used to do something mentally, we have different cohorts and what we published everything with the best cohorts so everyone will have the comparison of engagement from cohort to cohort on the same basis that we have from now on. That's it. So there data information for us to have that the precise number of active clients and active products and so on in the same base from Q1 2020, 4Q 2021, for instance. So that's -- it's going to be the new chance and then new metrics going forward for the cohorts in terms of engagement 10%. [ph]

Q - Jorg Friedemann {BIO 15405752 <GO>}

No, that's perfect. And had the USEND acquisition have anything to do with the reclassification or not really?

A - Joao Vitor N. Menin T. de Souza {BIO 19357380 <GO>}

No, no. Actually not. I mean we do have of course clients they are with only one product, for instance, it's a reality, but that's not the point that we're talking about 150,000 clients on top of (inaudible) So that's not material. The reason why we change that's not because of USEND. It's the new way of us pulling the data from our Data Lake and having a very accurate numbers for engagement, and of course, that's it.

Q - Jorg Friedemann {BIO 15405752 <GO>}

That's perfect. Thank you very much.

Operator

Thanks for your question, Jorg. And now the next question comes from Pedro Leduc from Itau BBA. Pedro, we are now opening the audio so that you can your question live. Please go ahead.

Q - Pedro Leduc {BIO 16665775 <GO>}

Hi Good morning, everybody. Thank you for taking the question and thanks for clarifying this assignment thing. And I'm going to ask a little bit on top line and operating leverage. We saw in terms of the NII composition, a significant acceleration and gross interest revenue is about 30% Q-o-Q, twice as fast as the portfolio. Can we read into this as you are already repricing up credit or testing the elasticity on your products? And when it began, if it was laid for Q and we should see more of this impact throughout 2022? So that's the first there on the NII acceleration that we saw. Just trying to pick your brains if this is a trend and just really began in 4Q?

A - Joao Vitor N. Menin T. de Souza {BIO 19357380 <GO>}

Okay. Thanks for the question. More or less, I would say that we have been repriced in our credit portfolio. But it take a while for us to start collecting this, I would say, this extra revenue from that because we do have most of our monetization coming from the current credit portfolio in the X rates, for instance, so when we change that, it takes a while for us to start collect so I would say maybe one year of 4Q or our six another quarters as far as to start to see that. But we're doing this new re-specification of the

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under -- the credit under-write. So this is one thing. But what we see in terms of the revenue, which is very good, as I keep always saying that, we have been grown all the initiatives such as a new business that we put in place. The agribusiness it's quite good credit corresponds to be grown a lot.

We have been improving also not only the NII but the fee income as well. I know that as for the fee also on the floating, on the (inaudible) for credit card, shop into shop and investments. So the beauty of the business that we might have some decrease on the NII going forward because the credit market environment not as good as it used to be on 2020, 2021, but we have the levers to keep growing our revenue. I would say that's the main thing I'd like to highlight on this earnings call. I mean we have prepared ourselves to have many different levers to pull more or less depending on the market, depending on the regulation, depending on what every we want to do.

So we have been able to keep growing our revenue from BRL1.1 billion to BRL2.2 billion, and our budget for this is also a very good growth on revenue because we have all these levers ready for us to pull. So that's maybe the most important thing that Inter achieved in this past maybe two, three years, and not only to mention the quality of our deposit base.

So when you have a lot of real deposits because we don't need to pay 200% CDI to the bring deposits. We have demand deposits cost-free and then we can monetize as well which is NII by the end of the day with floating and of the rite of the mix also positive for. So again we are very well balanced and prepared to keep growing the revenue in a sustainable way, in a diversified way for 2022 and beyond, I would say. So that's a little bit of the soft guidance for 2022 to 2023 on revenue increase.

Q - Pedro Leduc {BIO 16665775 <GO>}

Perfect. Thank you very much. And going down also to the operating leverage part of the question, and you have levers to pull on revenues. You have been heavily reinvesting these admin, personnel, client acquisition, how should we see that going forward in 2022 vis-a-vis the pace of revenues? Can we expect operating leverage to finally filter its way down to a positive one-to-one? Thank you.

A - Joao Vitor N. Menin T. de Souza {BIO 19357380 <GO>}

Yes, we do. Look, just to give you a good example. Most of our expense here as of today it's personnel, so we came from I would say, maybe 2,000 employees -- 2,200 employees on beginning of 2021 to almost 4,000 by year-end -- 2,500 to almost 2,800 on year-end, so it's a big increase. For sure, we're not going to do the same pace of growth on 2022, but we had to bring this team on 2021. It's important for us again to have this reliable sound state of the art platform for our clients. So I don't regret of that.

It's actually the opposite. We brought team talented to propel the business. So it is not going to repeat on 2022, 2023. So on top of our main expenses which personnel, we -- it's almost (inaudible) We're going to have operational average because we're going to have a very tenured growth, but our revenue, as I mentioned earlier, is not going to grow in a timid way. It's is going to grow in a very decent way. So it's a very good operational

leverage I had only in terms of thinking about personnel, which are higher expenses and revenue. So, yes, you're right.

Operator

Thanks for your question, Pedro.

Q - Pedro Leduc {BIO 16665775 <GO>}

Thanks so much.

Operator

And now, the next question comes from Yuri Fernandes. Yuri, we are now going to request you to release your audio -- enable your audio, sorry. Please go ahead.

Q - Yuri Fernandes

Hello, everybody. Can you hear me?

A - Joao Vitor N. Menin T. de Souza {BIO 19357380 <GO>}

Yes, we do, Yuri.

Q - Yuri Fernandes

Hi, Joao, Alexandre and Helena, thank you for the opportunity of asking the question. I have two questions, actually. First one is regarding the active clients. We saw a small decrease this quarter on the number of active -- not the number of active customers but the penetration, right. I guess this ratio used to be 57%, 58% of total clients, and this quarter it's dropped to 54%. So can you comment a little bit what drove this decrease? Do you think this is temporary? Do you think this is because of tougher competition? Maybe the clients now they have I don't know more accounts and it's harder for you to keep the active clients as engaged as in the past? So basically just to understand the trend a little bit there, Joao.

And a second question, if I may. Regarding loan growth, I know you don't provide guidance on that. But if you can just give a range for us to think about like how fast should loan growth grow in 2022, that would be important? And how to think about deposits? Because you have a very strong deposit base, we always say that and I guess all the investors, they know about how strong your deposit base is..But it has been some time that your deposits are growing slightly below loan growth, right? It was growing, I guess 8% quarter-over-quarter.

So my question is, do you see deposits as a limiter [ph] for the pace of growth for 2022, 2023? And again 80% quarter-over-quarter is still implying 35% to 40% total growth with the deposit base you have. But I would like to understand a little bit more right the front this side versus loans. And if loans should grow 50% or should grow 80%, what is your perception on the loan growth for 2022? Thank you very much.

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A - Alexandre Riccio de Oliveira {BIO 20402984 <GO>}

Okay. So let's go step by step. So first question about engagement. We do not see a problem in engagements. I would say that it's also the other way around. We might have some slightly increase or decrease of acquired but it's not something material so might have less 1% -- more 1%. [ph] I would think that you're going to stabilize on this level of engagements, which is not a problem. Actually, it's a good engagement. But the good thing is, Yuri, when I was answering the question (inaudible) we see a lot of up-sell cross-sell on the current clients. So how many more products, how many more revenue we are bringing from this -- I would say, this very good clients. Of course, all the clients are good, but if you have maybe one client with only one let's say a silly product or a single product, that's okay for him to churn and he's going to churn because that's the reason for you to use a platform that we have one maybe the top-ups for prepaid front. So the trend is good. The revenue the (inaudible) per client is very good, which answers about that -- so that's my -- what I was trying to address here with you. So that's about engagement and monetization, so very comfortable with that.

The second about the loan and the deposit ratio. As I told you, we're going to change from quarter-to-quarter, from year to year, so for instance, quarter-to-quarter, 1Q. And I think we have that question 1Q 2021, if I'm not wrong, and I remember it's making the tough valedictory [ph] our Chief Economist. 1Q is always not good for demand deposits for many reasons. Also, the macro -- dependent on the macro is not good for demand deposits as well. So it's not something about Inter (inaudible) generally speaking. But the good news is that we are bringing more engagements. We're bringing more deposits. We're being more and more the main checking account for individuals and for our business account.

So we see a very good deposit quality ahead. And of course, sometimes we might have a higher SELIC, people tend to maybe not the long tail, but more of the won back and win clients here, and they might be willing to invest more instead of living in the balance. This also a trend that might be higher or lower depending on the SELIC. But the good thing, Yuri, because we have I would say, a natural hedge, I mean, if the macro stuff -- if the SELIC is higher and our deposit base, either demand deposit or client deposit are not going to grow as fast as it was growing before. Our credit portfolio is not going to -- is going to follow as well. It's not going to grow as fast as it was as I mentioned also earlier on the previous question.

So I would say we're hedged on that. We have engagements so we can bring deposits and fund credit origination. The market is worst. We might not grow as fast as we wanted or should on deposit, but our credit underwriting is not meant best as well. So it's a hedged position, so -- and it's not easy to achieve that, okay. For us to achieve that, as I mentioned need to have been the primary checking account for individuals and for our business account, and for you to be the primary checking account for individual and business account we need to have a very good product standard, state of the art product as obviously I believe we do have the best in Brazil. So that's how we get engagement and good.

Q - Yuri Fernandes

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No, perfect. Thank you very much. And my personal opinion is that there is no problem you're accelerating the growth in a more challenging year, especially if you're focused on monetization and operating leverage, right, if you're able to keep increasing there. And I know you increased the price for all the loans, but we checked the debt in January and the increase was good from most lines. So if we're able to deliver the monetization and operating leverage, I think it's -- you need to grow 100%. You know, you can grow less than that and it's great. So thank you very much for your explanations.

A - Alexandre Riccio de Oliveira {BIO 20402984 <GO>}

Okay, Yuri. Thank you.

Operator

Thanks for your question, Yuri. And now the last question comes from Thiago Batista from UBS. Thiago, we are now opening the audio so that you can ask your question live. Please, go ahead.

Q - Thiago Batista {BIO 15398695 <GO>}

Yes. Hi, guys, thanks for the opportunity. I have two questions. One of them is a follow-up. Joao already mentioned about USEND. Perhaps you got some here, the first one, what type of products do you expect to include in this platform? So it's all the business that we have in Inter, or no, you are focused more in let's say, credit card or e-commerce if you can elaborate a little bit more?

And also about the 1 million clients that you mentioned, do you believe that this will be more Brazilians, guys live in Brazil that want to have money abroad or using that credit card, or more Brazilians that lives in US? So how do you believe at least 1 million clients -- potential clients will be divided?

And the second one about delinquency ratio in the credit card business. You had mentioned that Inter a little bit more concerned about this portfolio and reduced a little bit of expansion. But are you seeing any big difference in terms of, let's say, income of the user. [ph] So this increase in the delinquency ratio is much more concentrated in the low-income individuals or now it's in all type of individuals? So if you should can elaborate a little bit more on where this concern over the credit card business? Or what type of segment is considered more Inter in the credit card business?

A - Joao Vitor N. Menin T. de Souza {BIO 19357380 <GO>}

Okay. So let's start from the last question. Yes, it's more concentrated on the worst rate, so I'd say F -- EF, E&D, [ph] for sure. And that's what I mentioned earlier. I don't know if you was on the call. We need to be very fast and very accurate try to improve the credit card limits, underwriting on different segments in order to have a balanced NPL formation going forward.

So -- I mean I need to have a good TPV, a good transactor chunk from our portfolio on AMB, for instance, in order to provide revenues to face the NPL formation asked. And

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amidst that the trends are not good because of the market, whatever, those are families not (inaudible) whatever, it doesn't matter, we need to start reducing the credit underwriting on this specific ratings, that's what we did on the last -- actually in December last year. So this is one thing. So yes, it's different from each type of segments, and we need to measure depth to make sure that, Thiago, it's A or (inaudible) So this is very important for us to have a very good model to make sure that we know exactly what's the rate for this type of new clients. So this is one thing.

About USEND, I'm going to use the second part of your question to answer the first part. We see that for us to be competitive, we need to have a flagship product for us to compete and to have a lower CAC and a best referral rate. And to have two different two specific publics here to use the USEND. So let's first talk about the US residents, not US citizens, okay. We're talking about immigrants.

For this specific pool of clients, the flagship product is the remittance business. So we're focusing a lot on the remittance business for these guys Brazilians, Mexicans and so on. So that's how we're going to bring more clients to generate more revenue on top of this. For the Brazilians, the 16 million, 17 million plus Inter-account holders, our flagship product is the global account.

So how convenient it's for you Thiago that have a technical need to have one single app and to have some savings in dollar. It's like a mini compared to dollar. You can have your dollars in our global account, you can buy more dollars. If that dollar is getting close to 5, if it goes back to 5.50, you can sell. Even if you're not traveling abroad and not going to use that, so you're going to be using our debit card. So it's a global comfort in Brazil.

So we believe that on 2022 drive more clients from the Inter-channel, okay, so the guys that are going to open our global account and a lot of guys -- and not in many, but a lot of guys from the first channel, the immigrants in the United States. But if you think 2023, for instance, I believe that we're going to change this trend because they're far going to have better products over there to serve the immigrant, the US residents. And as I mentioned before the Uber app, so we're going to have most of the products also there, so I believe that's going to start to bring in more clients from the US residents and less from the Inter clients because from 2022, we're going to try to make sure that we're able to get as many clients from this 17 million, 20 million plus clients here. So that's that should main products that are going to drive attention from this two different pool of clients, okay. So that's the view for how we're going to engage these clients ahead.

Q - Thiago Batista {BIO 15398695 <GO>}

Okay, perfect. Thanks.

Operator

Thanks for the question, Thiago. And this concludes our Q&A session.

I would like to turn the conference back over to Mr. Joao Vitor Menin for his closing remarks.

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A - Joao Vitor N. Menin T. de Souza {BIO 19357380 <GO>}

Okay. So thank you very much, everyone. Thank you, my colleagues, Helena and Alexandre helping me here with all these questions and good questions by the way. Thank you everyone for the audience. I hope that foreign investors, they appreciate we did our best here in English, so -- but anyway, very, very happy with the quality of the discussions here and also very excited with what we achieved 2021. And again despite of actions and macro and whatever, we're very excited and very happy here working at Banco Inter to make sure that we're going to deliver another good year, it's just going to be 2022. And we found these initiatives of going abroad, using global card, investments and other verticals, all the tools that to have the levers to be, again, the best digital player in LatAm, and who knows in Americas a couple of years.

So that's it. Thank you very much, and see you soon on our next earnings call around May or whatever, something like that, so May or June, I don't know. Thank you very much and see you soon. Bye-bye.

Operator

The conference has now concluded. The Inter IR area is at your disposal to answer any additional questions. Thank you for attending today's presentation. Have a nice day.

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